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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, December, 1919.

AS the year 1919 draws to its close, men are hopeful and depressed by turn regarding the outlook for the year ahead. The universal social and political unrest, the labor unsettlement, the high cost of living, the dislocation of the world's trade and financial relations—these are the problems we shall have to grapple with in 1920 just as we have done throughout 1919.

Looking into the New Year, no two men will agree on what they see before them. Were it possible to view the outlook in the same manner as was formerly the custom when we were taking stock in anticipation of a New Year, there might be some agreement. Throughout the United States the people are well fed and generously supplied with what they require; there is comfort and plenty, and the advantage of opportunity has been largely realized. Could the outlook be viewed without considering circumstances other than the bountiful return of our crops, the large rewards for labor, and the prevailing industrial prosperity of our country, prophecy regarding 1920 would be an easy matter.

But there are other circumstances that bulk large before our vision. There is the circumstance of a social disquiet, fed by agitators who deride the dignity of toil and honest labor, and preach an overturning of the prevailing system. There is the circumstances of labor unsettlement, that makes itself articulate in demands for greater pay for less work. There is the circumstance of a high cost of living, growing out of an excessive demand for goods, an unbridled extravagance, and an extraordinary inflation of currency and credit. There is the circumstance of new and strange financial relations. And there is the circumstance, in addition to and overshadowing all the others, of an entire continent oversea, exhausted from the effort of a great war, torn with disorder and unable to compose itself.

Mere recital of these circumstances indicates the difficulty of reading the future, even a little way ahead. It is true that some of the problems with which we contended in 1919 are gradually resolving themselves. War and the destruction of war are definitely behind us. Peace and reconstruction are here. Our nation stands unshaken in the world's political storm. "Red" agitation, helped by the grewsome lesson of Bolshevist Russia, is defeating itself. Labor unrest has passed its peak; defeat of the steel strike and the Boston police and New York harbor strikes, together with the failure of a number of other labor conflicts, have brought a return of sanity to industry and compelled a moderation of the radical leadership that previously had gained an exalted sense of its own power. Factors bred by the war emergency that contributed the most to elevate commodity prices are coming under control; the law of supply and demand is prevailing, and if production and thrift increase prices must inevitably fall.

Signs That are Favorable

THERE are favorable signs all about us, and if these continue to multiply we shall need have no fear regarding the character of the year that is ahead. The prescription that has been given for making the year a notable one is simple; Clemenceau, the French premier, has pronounced it in a single word. It is "Work." For the United States this prescription implies a supreme opportunity, never given to a nation on such a scale before. It is to supply the things that Europe urgently requires, and give millions of people on that continent an opportunity to again take their place in the world's established order. The opportunity carries within itself a special significance that we cannot possibly ignore. It is this: our prosperity or adversity next year will be largely influenced by the manner in which we press our export trade. We can hardly expect to continue having comfort, plenty, ease and success if we do not carry on our exports, and if, through our default, prostration abroad continues, leaving people who might be our customers to poverty and disorder.

Europe's Dependence Upon Us

WORK, that will produce a large surplus of goods for export; economy, that will permit those goods to be exported instead of being consumed at home; credit, that will give foreign buyers an opportunity to secure what they need; these are the American necessities of 1920.

The extraordinary discounts at which the exchanges of foreign countries are quoted in our markets are a measure of Europe's present credit position as related to our own. The pound sterling was quoted in New York lately at less than $4.00, against a normal par of $4.86⅝. The franc and lire are far below par; the mark has been at 2¼ cents, against a normal par of 23.8.

Beyond that part of the discount in exchange that is due to actual depreciation of the foreign currencies, the inability of foreign buyers to balance their purchases with goods, gold or credit is the factor underlying the current situation. It is this inability that concerns us the most just now. It must be remedied if Europe is to go on buying from us in large quantities, and if a freedom of economic intercourse is again to rule. The prevailing discounts in the foreign exchanges impose trade barriers that no protective tariffs ever before imposed. They operate directly against the United States, and for certain commodities and buyers they have already made ours a prohibitively expensive market in which to buy.

If the discounts that operate against a liberal buying of goods in the United States are to be modified, we shall have to take what Europe has to offer in payment—goods of her own production and credit, to the fullest extent that is necessary.

Our Present Responsibility

EUROPE'S economic affairs are today a matter of grave concern to us; nothing can be gained by minimizing the significance of their present insecurity or by ignoring the statements repeatedly made that ours is the only country in the world immediately able to help. The depreciation in the foreign exchange is symptomatic of an inability to produce—an inability due not alone to lack of materials but to a weakened morale as well.

"The missing link between the raw materials and the European workman," it is correctly said, "is credit." Europe's salvation depends upon an ability to export, and she cannot export until she has first imported enormously. As for importing enormously, she cannot go on doing that unless some satisfactory basis of credit is established. To set in motion the machinery of civilization in Europe, then, American finance and statesmanship, as well as American industry, must be called into service. Poverty in Europe, intensified by inactivity on our part, might even threaten collapse of the existing economic system in some of the most seriously weakened countries. Let us recognize this, and we will at once recognize that what we do in the months immediately ahead, either to help Europe or let her drift, will be fraught with immense consequence to mankind.

What is Germany's Position?

WITH respect to accepting goods from Europe in return for goods sent, there are many people who still believe that trade with the Germans would be unpatriotic. The principle involved, however, is simple. Germany, vanquished in the war, is a comparatively small country, not rich in natural resources, with a dense population that depends to a considerable extent for its livelihood upon markets beyond the German border.

The Germans are expected not only to live in the days that are ahead, but to bear the culprit's cost of the war. If then, Germany is to make reparation for her crimes, and if her indemnity is to be paid, her exports for a long time must exceed her imports. Instead of being crushed, she must be helped to recover. Otherwise, what profit will come out of the peace terms that have been imposed?

Germany cannot pay an indemnity in gold. She has only $266,000,000 of the metal in her central bank, which probably includes nearly all the free gold in the country. The proportion of gold to notes and deposits is now only 2½ per cent., compared with a reserve of about 60 per cent. kept before the war. To demand Germany's gold now

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would involve a collapse of Germany's credit structure, and the former Allies, in their own interest, are called upon to protect that structure. Resolutions that were made during the war never to buy anything made by German hands are already giving way in certain European countries before the necessity. The Allies could never, in the words of a Dutch banker, milk their cow and cut its throat at the same time.

The Money Market

AN increase in discount rates went into effect at the Federal Reserve Banks in the middle of November, coincident with a statement on behalf of the Federal Reserve Board that the purpose was to curtail the expansion of bank credits that was contributing to excessive speculation. Indicating what was thought to be a definite policy that would be followed indefinitely, the increase in rates—followed as it was by a sharp downward revision of stock values—was made the subject of widespread comment and criticism.

The nature of much of this criticism revealed that there still exists a widespread misunderstanding of the Federal Reserve System. Many persons have seemed to think that the purpose of the system was to stabilize the rate for call money for speculation, or that it was intended as a credit machine with unlimited capacity and no cost of production. They could see no reason why member banks, when they were already borrowing to the limit of prudence, might not keep on taking commercial paper or war paper to the central institution for rediscount; they could see no reason why the Federal Reserve Banks should not accept all the paper thus offered and grant a deposit credit or issue Federal Reserve notes against it.

Until recently there was entertained an unfortunate idea that neither the member banks nor the Federal Reserve Banks needed to become conservative or think of taking in sail until their legal limit was reached. The legal reserves seemed to be regarded not as *minimum* reserves, but as standard or normal; this conception was due in some measure to the habit of calling anything above the legal bank reserve minimum an "excess" reserve.

The Banking Position

THE more general causes of expanded bank credit throughout the United States have been the funds absorbed by Government financing, the unprecedented demand for purely commercial loans, the rise in prices, the crop moving, and the borrowing of funds for speculation in stocks, commodities and land. The urgent Government borrowing of the war period having ended, it might be thought that latterly a curtailment of bank credit had been in order. The contrary, however, was the case. The extent to which credit had been expanded at New York prior to the Federal Reserve Board's action can be appreciated by a statement that in the middle of November the total volume of loans of the New York Clearing House banks was $490,000,000 more than at the highest point of the war period, when the Government was borrowing most heavily and when the country was straining its productive forces to the limit. Carrying comparisions to a pre-war period, the showing is even more striking. The volume of loans of the New York Clearing House banks in the middle of November, 1913, was $1,905,494,000; in the middle of last month the loans of the same banks were $5,260,297,000. From these figures we gain some conception of the structure of credit built up, over which it has become necessary to exercise some degree of control if inflation is at all to be checked.

The outlook for the immediate future is not that credit will henceforward be curtailed rapidly and forcibly, in defiance of good sense and to the detriment of our prosperity. But a stand has been taken against unwarranted inflation, and it is reasonable to assume that, in the best interest of all, this stand will be maintained.

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ESTABLISHED 1810

The Mechanics & Metals National Bank

OF THE CITY OF NEW YORK

Statement of Condition November 17, 1919

ASSETS

Loans and Discounts		$128,246,012.84
Customers' Liability Under Acceptances		4,009,744.01
U. S. Bonds and Certificates of Indebtedness		16,483,188.39
Bonds, Securities, etc.		7,493,368.07
Banking House		3,000,000.00
Cash and Due from Banks		132,787,801.26
		$292,020,114.57

LIABILITIES

Capital Stock		$6,000,000.00
Surplus		6,000,000.00
Undivided Profits		6,672,602.55
Unearned Discount		478,396.67
Reserved for Interest and Taxes		1,523,283.00
National Bank Notes Outstanding		1,000,000.00
Time Acceptances (Foreign Dept.)		4,510,674.36
Bills Payable Federal Reserve Bank Secured by U. S. Government Bonds		5,000,000.00
DEPOSITS		
Individual and Banks	$256,143,096.30	
United States Government	4,692,061.69	260,835,157.99
		$292,020,114.57

OFFICERS

GATES W. McGARRAH, *President*

Vice Presidents

JOHN McHUGH
FRANK O. ROE
WALTER F. ALBERTSEN
HARRY H. POND
SAMUEL S. CAMPBELL
NORTH McLEAN

JOSEPH S. HOUSE, *Cashier*

Assistant Cashiers

JOHN ROBINSON
ERNEST W. DAVENPORT
ARTHUR M. AIKEN
WILLIAM E. LAKE

ALEXANDER F. BRYAN, *Auditor*

DIRECTORS

DANIEL BARNES
JAMES M. BECK
WILLIAM E. COREY
W. R. CRAIG
WM. E. S. GRISWOLD
HENRY O. HAVEMEYER
WILLIAM A. JAMISON
L. F. LOREE
V. EVERIT MACY
T. FRANK MANVILLE
GATES W. McGARRAH
JOHN McHUGH
F. DE C. SULLIVAN
CHARLES M. PRATT
ROBERT C. PRUYN
SAMUEL F. PRYOR
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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, January, 1920.

As we enter the New Year, trade shows no diminution from its extraordinarily high levels. Demand continues to exceed supply at existing price levels, and the main complaint is a shortage of goods. Prices have reached a new high point, and Bradstreet's index number for December stood 6 per cent. above a year ago, when the war ended.

The settlement of the bituminous coal strike removed the greatest immediate menace to continued prosperity, for the suspension of soft coal output had not only been harmful in itself, but had reacted on other industry and had thrown men out of employment. Labor disturbances in other fields, shortage of raw materials in some lines, falling exchange rates, and the uncertainty and hesitancy brought about by the lack of a peace treaty have been other factors retarding production. The present situation may be described as one in which production has been meeting with obstacles while consumption demands have been unrestrained.

The coming of the new year finds interest centered in the great problems that lie immediately ahead of us. Although it is fourteen months since the active hostilities of the war ended, the Peace Treaty continues to absorb the interest of the people. The deadlock in Washington over the League of Nations covenant, which has delayed the American ratification of the Treaty, is not broken, yet the need for a settlement of peace grows more urgent every day.

Railroad Legislation

Next to the settlement of peace, and what that will mean in assurance to foreign trade and to the exchanges, financial America is probably most concerned at the present time about the railroads. That to turn the railroads back as they are would mean disaster to some of them can be seen from the merest glance at present earnings. The Government guarantee is about $900,000,000 for the twelve months. During the calendar year 1919 the railroads earned about $600,000,000, leaving $300,000,000 to be made up from the pockets of the taxpayers. Moreover, even if rates were raised to enable the roads to earn a full $900,000,000, the purchasing power of those earnings, if used either for new construction or for distribution among investors, would be far below what it was in the three year period ended June 30, 1917, from which the guarantee was determined.

Present legislative activities at Washington are in a highly uncertain state; the original House bill and the original Senate bill dealing with the railroads have already been greatly altered. While legislation is assuming final form, probably in the two months between now and March 1, the day set for the return of the roads to private operation, it is to be hoped that Congress, for the nation's future welfare, will not ignore certain basic principles.

Inadequate Transportation

Assuming private ownership and private financing—and two years' experience has practically obliterated Government ownership sentiment in Congress—the first principle, taking precedence of all others, is that income returns should be provided that will insure continued investment in the railroads and continued development of railroad facilities to keep pace with the growth of the country. Unless the railroads are allowed and encouraged to grow, the effect must be to hinder the development of all industry. The marvellous working of economic forces, and increasing specialization, have made of industry, however unconsciously planned, a great machine, in which every part depends upon every other, and must bear a certain relation in size to it. If the railroad facilities are inadequate, all other industry must slow down. This was painfully illustrated in January, 1918, when the Fuel Administration put into effect its famous order compelling most industries to take forced holidays while the railroads worked to relieve the freight congestion.

Recently William B. Wilson, the Secretary of Labor, in explaining to the striking coal miners some reasons why their employment was periodic, remarked: "The third reason is the matter of transportation, and to my mind it is the greatest of all of them. With the tremendous growth of our industries and our commerce during the last sixty or seventy years, our transportation systems, even with their phenomenal growth, have not been able to keep pace in equipment with the demands on them for transportation. We have never had a sufficient amount of motive power to take care of our transportation business at the peak of the load."

A "Fair Return" to Investors

THERE is one leading reason for this. Capital invested in the railroads has not in recent years been allowed a fair return. Unless it is now allowed such a return, the disproportion between the railroads and other industry will become more dangerous as time goes on. Unfortunately, there is too much of a tendency to think of "a fair return" in an arbitrary way, as if it were something that could be decided upon merely by the sense of fairness of legislators or commissioners, instead of by economic conditions. Edgar E. Clark, of the Interstate Commerce Commission, said recently: "Some people come before us and argue that 3 per cent. is liberal enough. Others say that it ought to be more; 6 or 7 or 8 per cent. I think that it would be simpler...if the law laid down the standard which it recognized as reasonable...."

What is really to the point in the matter of income return is not what the law thinks reasonable, but what the prospective investor thinks reasonable. The law can keep the investor from getting a large return; it cannot compel him to invest. After all, what constitutes a fair return is not a question of opinion, but a question of fact. We must consider or investigate the returns that capital is getting in other lines, and what they average, for only by knowing this can we know what return will be sufficient to attract capital to the railroads.

The "fair return" dare not be rigid, a figure drawn from the inner consciousness of Government officials, but should vary as the returns in general business vary. For the capital already in the railroads, it might be thought that legislators could fix any return they chose, so long as it was something more than operating expenses, because capital already in cannot escape; and any return, no matter how low, is better than no return at all. But if old capital is not treated fairly, new capital will not come in. We must be fair to capital already invested, if not for the sake of justice itself, then for the sake of the effect of fairness or the lack of it on the investors we seek to attract.

Maximum and Minimum

EVEN if we were to take as a basis for a "fair return" on railroad capital the average yield received by capital in other lines of industry, we could not make that also a maximum return, unless we were willing to make it at the same time a minimum. But again, if we did this, there would be the same yield on invested capital, no matter where a railroad was located, no matter what improvements were made upon it, no matter how superior or how wretched the service, no matter how severe the economies or how great the extravagance.

If we are to have any hope whatever of encouraging efficiency and economy, we must put a premium on the qualities of efficiency and economy, and a penalty on extravagance and bad management, or we must allow the natural premiums and penalties to take their course. The Esch bill, which was passed by the House during the autumn, recommended that the Interstate Commerce Commission fix rates yielding "a fair return upon the value of the property" but did not attempt to fix a figure. The original Cummins bill in the Senate fixed the fair return at 5½ per cent., the Commission being authorized to increase this to 6 per cent., the additional half per cent. to be used for "non-productive" improvements.

Five and a half per cent. is not a compelling rate of return when it is considered that investors can purchase a United States Government bond on a basis to yield over 5 per cent., and bonds such as those of the British Government in this market to yield 6⅛ per cent. on long maturities to over 10 per cent. on short maturities. But confining our attention to railroad securities, let us ask what return would be necessary to attract capital into the railroads today. We find that first grade underlying mortgage bonds are selling to yield from 5⅛ to 5¼ per cent., first grade general mortgage bonds from 5½ to 5¾ per cent., first grade junior bonds from 5¾ to 6½ per cent. If we turn from these to first grade short term issues we find these yielding from 6 to 7½ per cent. Turning again from these fixed returns to yields on the highest class of railroad stocks, we find that the investor is not tempted into Atchison or Pennsylvania for less than 7½ per cent., nor into Illinois Central or Northwestern for less than about 8 per cent. These are not the returns being received by the original holders, but the returns which prospective investors demand, because they can be obtained elsewhere. Neither are they the returns on the securities of weak roads, to compensate for risks, or even average returns. They are the yields on bonds and stocks of roads enjoying exceptionally high credit.

Fixing The Average Return

IT is obvious that in fixing the average interest to be received on railway capital, we must be guided not by the yields now being accepted by investors only for the best secured capital, but by the average return demanded by all railway capital. Part of the high rates just cited, it is true, is due to the fear that these yields will not be maintained; if the roads were absolutely sure of the return, the interest rate demanded would not be so high. But the returns necessary to attract capital are now higher than before the war. If it be contended that these returns are only temporary, the answer must be given that no one knows how temporary they are, and that the only way to meet a condition is to face it squarely, preparing at the same time to meet in the same way any other condition that may subsequently arise. Even if the rate fixed were equivalent to the yield on capital in other lines, then if profits above that fixed rate were removed or limited, it would seem that there ought to be a corresponding limit to losses in order to make railroad investment still as attractive as other investment. The Cummins bill as first presented in the Senate, provided, in substance, that any road earning more than the "fair return" should retain only one-third of the excess and pay the other two-thirds to a general railway contingent fund.

It is a question whether this would not deduct too large a percentage of the excess; it is a question, moreover, whether the Government could take away more than half of the profits earned by roads above the fair return without deadening private initiative and good management. If half the profits earned by the railroads above the fair return are taken back, this provision could only be balanced by turning the profits over to roads with deficits below the fair return. By not giving such roads more than half of this deficit, the deadening of their incentive toward economy or better service would be avoided. Sentiment in railroad circles, however, seems to favor a regional tariff high enough to yield a fair return to railroad capital invested in a region as a whole, leaving the strong roads the rewards of the good location, good financing and good operating management that make them strong, and leaving the weak roads to suffer the penalties of the location or poor management that makes them weak.

The Government Deficit

ONE of the big things which cannot escape having an influence on business this year is the demand that will be made upon the people's purse by the United States Treasury. Representative James W. Good, Chairman of the Appropriations Committee of the House, has estimated that the expenditures of the Government for the fiscal year from July 1, 1920 to June 30, 1921—wholly apart from any assistance to the railroads—will total $5,250,000,000. In each of the four years from 1913 on, revenues (including postal) approximated just slightly over $1,000,000,000. Representative Good estimates that there will be a deficit in the general fund of the Treasury on June 30, 1920 of $3,156,000,000, and points to the possibility of a Treasury deficit on June 30, 1921 of $2,870,000,000.

Such a deficit can be overcome in only three ways: taxes will have to be raised, the Government will have to borrow extensively, or a policy of economy—an elimination of wasteful expenditure—will have to be adopted. Which shall it be? If Congress does not retrench the funds will have to be provided. Borrowing would not be easy. A great volume of war bonds is still unabsorbed. War issues are now on a 5 per cent. basis. With the war over it is felt that the policy of the Government should be to decrease the national debt rather than to increase it.

But what about taxation? Can we look ahead to taking nearly $9,000,000,000 in taxes from industry in the next fiscal year—twice as much as taxes in the height of the war period? This is a question entitled to the immediate and serious consideration not alone of committees in Congress, but of every business man throughout the country who can make his voice heard. Unless appropriations are contracted, we may face a burden of taxation in the next fiscal year even more crushing than was that of the war period.

This problem becomes even more serious when we consider the necessity of lowering the excess profits tax. The Secretary of the Treasury himself, in discussing the effects of this tax in peace times, remarked: "It encourages wasteful expenditure, puts a premium on over-capitalization and a penalty on brains, energy and enterprise, discourages new adventures, and confirms old ventures in their monoplies. In many instances it acts as a consumption tax, is added to the cost of production upon which profits are figured in determining prices, and has become, and will, so long as it is maintained upon the statute books, continue to be, a material factor in the increased cost of living."

England has already reduced its excess profits tax from 80 to 40 per cent. That was a tax on war profits; ours is a tax on high profits as such. In practice our tax has proved highly vexatious. Corporations have been in constant doubt as to the amount asked for, what exemptions would be allowed, and what the Government would consider "invested capital."

Corporate and Individual Taxes

IN addition to these strong objections to the present excess profits tax, there are certain objections to heavy corporation taxes in general. Corporation taxation is not only *double* taxation, in the sense that it taxes a man's income before it gets to him, and taxes it again, after he gets it, in the form of individual income tax, but it is also unfair in the way it falls. If a corporate tax takes 50 per cent. of a corporation's income, it is taking as large a percentage from the income of a widow with a few shares of stock as it is from a millionaire with several thousand shares. This utterly violates the principle that taxes should be levied according to ability to bear them. The $2,000 a year which a woman receives from her holdings of the stock of a single company may constitute her entire income. The Government collects no tax on this from her if she claims the full exemption, but if it takes half the income of the corporation in which she holds the stock, it is taking, in effect, half of the total income she would otherwise have received.

Heavy corporation taxation is popular because in many minds corporate wealth is not sharply distinguished from individual wealth. Large aggregations of capital and earnings, such as represented by the United States Steel Corporation, are seized upon as evidence of huge wealth without thought of what an infinitesimal fraction of that aggregate is owned by certain stockholding individuals, among which are sixty thousand of the Corporation's employees.

Corporate taxation is easily collected. A corporation must keep accurate and usually public accounts; it is far more difficult for it to conceal earnings than for any individual. The expense of collection is relatively smaller. The large number of persons with small individual units of income must necessarily be more troublesome and expensive to collect from than the relatively small number of corporations with large individual units of income. These advantages make corporations a legitimate source of moderate taxation. But when the rate approaches the present level, the advantages are too dearly bought in unfairness.

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UNIVERSITY OF ILLINOIS
JAN 26 1921

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, March, 1920.

DURING the past year the country has become accustomed to a prosperity unparalleled for many years. Prices have reached a level unprecedented since the Civil War; wages have risen to correspond; labor has been fully employed, and the chief complaints have been that employers cannot get enough labor, and that buyers cannot get enough goods.

But during recent weeks signs have accumulated that this condition may be greatly altered. Foreign exchange rates have declined to points hitherto unknown, with a violence never seen before. Rates for call loans have been exceptionally erratic; time money has advanced to a level unapproached in several years; even these rates have not served to check the desire for borrowing, and banks following the dictates of prudence have been unwilling to grant many applications for credit allowable in normal times. Gold has been flowing out of the country at an unprecedented rate. With the foreign exchange disorganization, with prices at such levels, and with credit to finance further price increases unavailable, it is apparent that some readjustment or alteration of business conditions is before us.

Future of Foreign Trade

THOUGH the exchange rates are not in themselves so important as they are often thought to be, they are of great significance as barometers. They are not the chief evil, but they indicate the chief evil, and that is the fact that our excess of exports threatens to disappear because our European customers will lack the means of payment. They cannot pay without credit, and our extensions of credit seem to be coming to a stop. Their need of goods has been and is still so great that they have been and are still willing to pay the exorbitant prices brought about by the exchange rate; but they cannot pay those prices if we will not even extend them the credit to buy the goods.

Our trade with Europe will fall off gradually in any case. No one can expect it long to continue in its present unbalanced state. Europe's abnormal needs, the result of shortages of goods brought about by five years of war, must soon decline; not only as they are filled by goods from us, but as Europe returns to production. Mere extensions of credit, no matter how generous, will not ward off this decline. Credit demands interest; credit must be repaid; and the business men of Europe will go into debt only for goods that they need.

The real question before the American people is whether this decline shall be gradual, so that industry in this country may have time to become adjusted to it, or whether it shall be sudden, whether it shall come as a shock, whether it shall result in a backing up of goods, whether it shall mean disorganization. That is what will happen if credit comes suddenly to a stop. We can forego talk of philanthropy and aid and generosity; we can forget that credit or our export trade is helping Europe in any way; we can take the narrowest possible selfish view, and the fact remains that a sudden cessation of credit, which means a sudden shrinkage of export trade, would bring hardship and confusion to our own industries, and diminish our present prosperity. However much in theory we may differ among ourselves as to the effect and importance of a great export trade on prosperity, we must face the facts of the present situation, which are that our agricultural and industrial output is today proportioned to and based upon an unparalleled export trade, and that any sudden diminution in that trade would cause unsettlement and trouble throughout industry.

If the need for credits is not sufficiently realized, and if long term loans are not extended in appreciable amount, it will become necessary for business to put its house in order and to prepare for a falling off in foreign sales. An effect of that falling off would be a decline in prices, so welcome to consumers, but harmful to certain exporters. That decline might not be immediately evident, because accumulated domestic demands in many lines would probably take care of output in those lines for a number of months; but in the absence of other developments such a decline would be certain to come.

Money Market

WHAT has amazed many observers is that our foreign trade has maintained itself to the extent that it has. There has been a great deal of speculation as to where the credit has been coming from. The $4,000,000,000 trade balance in our favor in 1919 was only in small part made possible by loans from our Government to Europe or by our purchase of foreign securities. More than half of it was financed by short time credits of some kind. This has been done to some extent by direct holding of exchange by banks and individuals, but to a vastly greater extent it has been done indirectly. Exporters have extended short term credits to their European customers, and perhaps in most instances of this kind the burden has ultimately been shifted to the banks. Either the exporter has discounted his customer's note or acceptance directly with his bank, or he has made up for his lack of cash from European sales by discounting notes or acceptances of domestic customers or by giving his own note.

As the banks are compelled by the dictates of prudence to retrench their loans, further large extensions of this type of credits are almost out of the question. It is this inability to increase loans further that has precipitated the decline in exchange rates. If a bank felt that its holdings of foreign exchange bills were too great, and offered them in the open market, it depressed the price. If a bank felt unable to renew the note of an exporter, the exporter was often compelled to pay off his note or to secure needed cash by selling his foreign exchange holdings, and this again has depressed the price.

Bank financing of foreign trade is not the only factor responsible for the present money strain. Several long standing influences still remain. While the Government has been paying off its certificates of indebtedness, a great mass of undigested Liberty Bonds are still being used as collateral for bank loans. High commodity prices necessitate correspondingly larger bank loans even with the same volume of goods. Speculation in commodities is also a factor, but probably of much greater moment than this is the existing freight car shortage. Not only are manufacturers compelled to hold a large part of their finished product, but they are forced to order large supplies of raw materials in order not to be tied up because of delays in delivery. These abnormal inventories require abnormal bank loans to carry. A drastic curtailment of loans would force manufacturers to unload some of these goods on the market, with great loss to themselves and disturbance to general industry. The situation in its broader aspects is merely another illustration of how a penny-wise policy with the railroads, refusing to allow them to earn more than bare minimum returns, ultimately reduces their facilities and reacts on all industry.

Gold Exports

STILL another factor in the present strained credit position is the export of gold. During the past two months gold has continued to leave the country at the extraordinary rate of 1919, when the net exports reached $292,000,000, the greatest for any year in our history. The nearest previous approach to it was the $165,000,000 of gold which went out in 1914. Before the abnormal war conditions, the greatest was $89,000,000 in 1909.

What makes this outflow of gold of unusual importance is the great superstructure of credit raised upon it. Prior to the Federal Reserve System, banks in reserve or central reserve cities were obliged to keep cash equal to 25 per cent of their demand deposits, and country banks had to keep 15 per cent. Under this arrangement it was usually estimated that one dollar in gold would form the basis of about five dollars in credits. The potentialities under the Federal Reserve System are vastly greater. Member banks may legally keep reserves as low as 13, 10 and 7 per cent, according to location; which allow about ten dollars in credit for every dollar in gold.

Even these reserves are not in ultimate cash. It can be built up, and has been built up, by member banks bringing part of their loan holdings to the New York Federal Reserve Bank, rediscounting them or borrowing on them, and receiving Federal Reserve Notes or a credit on the Reserve Bank's books, which the member bank considers equivalent to cash, in the same way that member banks' customers consider their deposit credits on the books of the member banks equivalent to cash. But this credit granted by the Federal Reserve

Bank is not considered cash by the Reserve Bank itself. It is a liability; and against this liability the Reserve Bank is compelled to keep a reserve of 35 per cent in gold or lawful money. Against its own notes it must keep a reserve of 40 per cent in gold. There is, in short, a reserve of a reserve, an ultimate reserve, and that is the gold (and lawful money) held by the Federal Reserve Banks. The reserve which member banks carry with the Federal Reserve Bank is hence partly the product of borrowing, just as deposits in member banks are largely the product of loans made by member banks.

Relation to Credit

CREDIT under the Federal Reserve System has not been strained to its legal maximum; but for every dollar of gold money in the country there now exists from eight to ten dollars in bank credit. If we take the lower of these figures, it means that to maintain even as great a ratio of gold to credit as we now have, we must wipe out eight dollars in credit for every dollar in gold which leaves the country. This means that, if as much gold were to leave the country this year as last—nearly $300,000,000—we would have to wipe out nearly $2,400,000,000 in credit.

What makes this gold exodus more serious is the falling off in gold production. The world's output has been declining year by year, falling from $469,000,000 in 1915 to $385,000,000 in 1918. In the United States it has fallen from $101,000,000 in 1915 to $58,000,000 last year. What is further significant is that none of the new gold produced last year went into the currency. About $65,000,000 was used in this country in jewelry and other arts.

That a country with a trade balance in its favor greater than ever before shown by itself or by any other nation should be losing gold at a rate never before approached in its history is one of the strange economic paradoxes of the present day. An analysis of our foreign trade, however, removes any mystery. We are wont to say that we have a great favorable balance of trade with the rest of the world, and that is true when the rest of the world is treated as a unit, but when we think of the world in terms of its grand divisions, the fact stands out that our favorable balance of trade exists wholly with Europe. To Europe in 1919 we shipped $5,186,000,000 of goods; from her we received only $751,000,000 worth. But to the rest of the world aside from Europe, we sold $2,736,000,000 and bought $3,154,000,000 worth, leaving us an unfavorable balance of $418,000,000. With certain qualifications it may be said that while we stand ready to pay the difference to these countries in gold, and while they insist on gold in payment, Europe refuses to send us gold, and we have been willing to accept either long-term or short-term credits.

New York's Position

THE two most obvious "solutions" to occur is that we should either demand gold from our European customers or place an embargo upon gold exports. The first action would produce chaos in European currency and business and act as a boomerang upon ourselves. The second is a step which, if taken at all, should be taken only as a last resort. It would be a retrograde move. It would be a war measure at a time when we are trying to minimize Government control and return to the normal ways of peace. And it would cost us dearly in prestige. Before the war London was the financial center of the world. It was the boast of Englishmen that the leading reason was that "gold or its equivalent was only to be had, always and without question, and to any amount, in London." That is no longer true, and New York is the center to which the world is looking.

It is true that we placed an embargo on gold exports during the war; but we should be willing honestly to face the fact that when we did so we compromised our gold basis. We were not upon it so far as foreigners were concerned. Our action was quite justifiable and perhaps unavoidable, but the loss was only justified by the great necessity of the moment, when the maintenance of our prestige was less important than the winning of the war. The loss in prestige would be greater now, and the compensations nowhere near as great.

An embargo on gold exports, intended to protect our gold standard, would in the opinion of many be the first step away from a gold standard. The American dollar would decline in foreign markets, and in all markets still upon a gold basis. The move might tend to give us a false sense of security, and efforts to restrict inflation might not be firm enough.

Test of our Financial System

WHAT is most important, aside from pulling a tight rein upon our credit expansion, is that we keep our sense of proportion and do not become unduly frightened about our outflow of gold. If exports of the metal were unprecedented during the last year, so were imports for the three years before that. As against the Treasury's estimate of $1,816,000,000 stock of gold money in the United States on January 1, 1915, the amount on January 1, 1920 was $2,788,000,000. Above all, we do not want to take panicky action and then have the flow of gold suddenly reversed through natural causes, just as it was between 1914 and 1915, when many persons were suggesting that we put an arbitrary stop to the export of the metal. In the crisis of 1914, when the leading nations of Europe instituted moratoria and drew on us heavily for gold, we met the drain; and our bankers have never had cause to regret their courage in meeting it.

Not only Russia, Austria and Germany, but France, Italy and Great Britain have abandoned the gold basis. The next few years will be years of test for our currency system, years of test for the sound judgment and balance and courage of our financial leaders, years of test of our ability to stand as international bankers. If we can maintain the gold standard through this period, if we can stand like oak while fellow nations are bending like reeds before the gale, we shall immeasurably strengthen our prestige. Our courage may even prove the deciding factor in consolidating our position as the financial center of the world.

The Merchant Marine

THE future of American shipping is now receiving wide attention. The Senate Committee on Commerce has been considering the subject. Every right thinking American desires a strong merchant marine and does not want again to see the United States in the humiliating position in regard to shipping that prevailed before the war. But a patriotic desire alone is insufficient; it must be on a business basis if it is to endure. With the drastic provisions of the LaFollette Act, the repeal of which is urged by many, the wages paid to the crews of American vessels are approximately 50 per cent larger than those of Great Britain and double those of Japan. No company can afford to purchase shipping at the price asked by the Government and operate it in competition with other countries at such a discrepancy in operating cost. Government ownership appeals less and less to the average citizen, and it would not solve the problem. The day of excessive earnings from shipping has passed. We are settling down to a lower and more stable basis.

Government losses on boats chartered to irresponsible parties are said to run into the millions, until bonds are now being required of the charterers.

For the Government to retain control would involve serious expenditure. Many vessels must be reconditioned. Repairs to the Leviathan are estimated at about $7,500,000 or $140 a gross ton. It is calculated that to recondition thirty ex-German passenger and semi-passenger vessels would cost over $50,000,000.

Secretary Baker desires the Government to retain certain German ships in order that we may not again find ourselves utterly lacking in transports. But these form but a negligible part of the shipping now under Government control. At present the Shipping Board is operating approximately eight million tons deadweight, all of which is owned by the United States Government. The construction program which will be completed during the coming year will give a total Government-owned fleet of approximately twelve million tons.

Foreign Activity

WHILE America is discussing, England is taking active steps to regain her supremacy. Large forces of workmen are overhauling the Imperator, Aquitania and Olympic in British yards to get them into service as soon as possible. The Cunard Line announces increase of capital from £1,000,000 to £4,500,000, establishment of eleven new branches in Canada and the United States, and the construction of a huge terminal at this port. The Cunard and allied lines have under actual construction at this time 389,000 gross tons, with contracts placed for 100,000 tons more. The Compagnie Generale Transatlantique (The French Line) has placed contracts for 300,000 tons of new ships.

If the Government is to sell its ships, it must expect to compete with the price at which the foreign builder will build, or at which foreign owners will sell today. Private owners must be able to obtain the ships at a price that will enable their operation in competition with foreign owners. Legislation is required modifying the LaFollette Act, and providing for the placing of mortgages on the vessels that will not be, as now, a lien following charges for repairs and supplies. A Government that took its loss on materials, cantonments and other properties might not find it less wise to take its loss on shipping and retire from the business.

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UNIVERSITY OF ILLINOIS LIBRARY
10, 1921

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

NEW YORK, April, 1920

FINANCIAL and industrial sentiment in many respects have been unmistakably optimistic during the past few weeks, and while the release of business from an exceptionally severe winter and the usual spring-time cheerfulness are in part responsible, certain other very positive considerations have had much to do with this feeling. The return of the railroads to their owners, following the passage of a law bearing provisions for a fair administration of the nation's carriers, was one of these considerations. Others were the Supreme Court decision in the stock dividend and railroad valuation cases, the clean bill of health given to the Steel Corporation, the improvement of the foreign exchanges, the announcement from abroad that the Anglo-French Loan would be retired when due, and above all, the evidence that despite all obstacles, our domestic trade is being sustained, while official figures have so far failed to show any substantial decline in foreign sales.

The distinctive feature of the present situation continues to be the extraordinary shortage of goods. Even in their personal expenditures people daily encounter the fact that not only are prices in all parts of the United States high, but that, more striking still, manufacturers are far behind their orders, so that goods, if obtainable at all, are only to be had with difficulty or after long delays. It is asserted that so long as this condition of under-production exists, there cannot be any let-up in the present pace of business. Depression will not come, it is said, until output has been so increased as to overtake demand, and "over-production" sets in. But it is difficult to see how the maintenance of American prosperity is to depend upon our continuing to produce fewer goods than are wanted. "Over-production" cannot mean the existence of more goods than are desired; we cannot turn out too much wealth. Yet it is not impossible, particularly if, presently, a foreign outlet for goods is barred through Europe's inability to secure credit, an~~d if caution~~ is not taken, that in certain lines more goods may be turned out than can be sold at a profit; and this is certainly not out of the question when costs of production are so high.

Prices of Commodities

HOWEVER, for the moment the tendency toward declining prices is not sharply defined, and, generally speaking, the market for commodities is very firm. So far as food products are concerned, there has been some recession, but in the long run too much is not to be expected here unless there is a change in the agricultural prospect. Evidence is unmistakable that the farmers are starting the season under severe disadvantage. The city industries have absorbed so much of the usual farm labor that help is scarce, and it is likely, in view of that and other circumstances, that crops will be planted this year under the highest cost ever known for farm wages, farm machinery, fertilizers and other crop essentials.

The mainstay of this country's economic life is its agricultural output, yet if the important crops follow the precedent of winter wheat this will be a poorer year than for several years past. The area planted to winter wheat was reported by the Government in December to be 38,770,000 acres, as compared with 50,489,000 in the year before and the smallest since 1913, while the condition of the crop for the whole country was placed at 85.2, against 98.5 in the previous year. The grain has come through the winter months poorly.

Europe's Present Position

ONE still finds difficulty in bringing out the permanent values of the victory won by civilization in the war. Europe has found it impossible up to this time to return to its old peace-time stride; economically as well as politically every recently belligerent nation is learning how much harder it is to come out of war than to plunge into it. All that has gone on abroad recently—from the revolutionary outbreak in Germany to the confused movements of exchange—shows how marked is the inability of every country to secure immediately the blessings of peace.

So far as the United States is concerned, time will be needed to show just what our post-war position is to be. Up to now we have apparently not suffered any consequent material loss from our technical state of war, but soon or late we must come to a realization that we, as well as other nations, must lose through the absence of our signature from the Treaty. The compelling need of nearly every country of Europe today is help from the United States, and such help as we are in a position to give should not be held back indefinitely because of a political deadlock.

The Money Market

PROGRESS was made during March toward liquidation of loans and an easier tendency, though this progress was not reflected immediately in the bank statements on account of the mid-month income tax payments. Time loans on stock exchange collateral have been at 8 and 9 per cent; commercial paper has been at 7 per cent—rates not touched during the past twenty years with the exception of a few months in 1914 and in the panic of 1907. The Federal Reserve Banks, with their ratio of reserves to liabilities almost down to the legal minimum, have shown little improvement in their position.

If the many influences responsible for the present strain could be expressed as a single cause, that cause would be that the banks have been called upon to undertake functions which properly belong to the investment market. That is what has made the strain so continuous, and that is why, though the money market has been somewhat relieved, more substantial relief seems far off.

The trouble goes as far back as the war financing. During the war it was necessary that the Government have a steady flow of funds, and, beyond what was gained by taxes and Liberty Loans, this was supplied by the subscriptions of the banks to "certificates of indebtedness" having only a few months to run. The plan was that as the Government sold bonds to the public in its periodic campaigns the proceeds of the bond sale would be used to pay off the banks. But the investment market did not absorb these bonds as rapidly as they were issued. When individuals were urged to borrow on their bonds and pay for them out of savings, many followed the first half of the injunction and neglected the second, with the result that the banking system is now loaded down with Government bonds and notes. More than one-half of the bill holdings of the Federal Reserve Banks are made up of loans secured not by commercial paper, but by Government obligations.

In still another way the commercial banks have been performing a duty of the investment market. The difference between imports and exports has been made up by bank credits, and not by long-term loans to Europe or by the purchase of European securities. The duty of the investing public to relieve the banks from tasks which do not properly belong to them—tasks which create an unstable and strained condition—has been referred to time after time for months past. This duty will be performed only when the present orgy of extravagance ceases, and when people stop squandering their full incomes, or such a large proportion of them, in current consumption.

Necessity for Restriction

FAILING full relief by the investment market, and, following the dictates of prudence, the banks have been compelled to restrict the extension of credits. No indiscriminate calling of loans that would have resulted in the unloading of goods on the market, business losses, unsettled prices and confusion has occurred; but in considering not only their individual welfare and the security and safety of individual loans, but the welfare of the entire business community, banks have carefully scanned the loans wanted merely for holding commodities in speculation for a higher price, as against loans for carrying inventories in the natural course of business or under the compulsion of the freight car shortage. Wherever there has been discrimination, it has been in favor of lines that are manufacturing or producing necessities rather than luxuries. In the public interest the essential lines have been the most protected.

Further credit expansion, which would lead to another cycle of rising prices and still further endanger redeemability in gold, is now being held in check. If the gold that is sent here by Great Britain in connection with the payment of the Anglo-French loan in the fall, added to whatever gold we may purchase in the London open market, should result in net additions to our stock, strong efforts should be made to use that gold *to support our present credit structure, and not for further inflation.* Wisdom dictates that hereafter we should be prepared for withdrawals by keeping as great a surplus of gold under our credit structure as we can, so that exports of the metal will not force drastic contraction here, but will allow that contraction to be gradual.

The Railroads

THE new Transportation Act is probably a better law than anyone had hoped for when the subject was first considered. Among the advantages which the railroads have gained are the extension of the Government's guarantee for six months; the provision that individual roads can accept or reject this as they please; permission to fund their obligations to the Government for a period of ten years, and a revolving fund of $300,000,000 for present borrowing. Voluntary combinations within certain limits, and the joint use of terminals and other facilities, are provided for, while the proposed compulsory combination in the original Senate bill was abandoned. The original provision that two-thirds of the profits earned by any one system above the statutory "fair return" was to go to the Government, was changed so that only one-half of such earnings are now to be recaptured. This is probably the largest proportion that the Government could take and still leave an incentive to private management for efficiency, economy and new development.

Most satisfaction of all is to be taken in the fact that private operation was overwhelmingly favored in the passage of the Act against all proposals for Government ownership; that in particular the sinister class proposals of the Plumb Plan, supported by the threat aimed at Congress and the people that the railroad unions were "in no mood to brook" the return of the roads to private management, were decisively rejected.

Notwithstanding all these gains, we cannot afford the assumption that the railroad problem is solved. Though the new law provides that half of the earnings of any particular railroad above the statutory average return to railroads as a whole or to any particular "rate group" shall be taken outright from that railroad, it does not provide that half of any deficit suffered by any other particular railroad below this average return shall be given outright to that other railroad. Such railroads may earn as little as 3, 2 or 1 per cent. on their capital, or even undergo losses, so long as the average earnings of all the railroads or of the "rate group" equal 5½ per cent. Railroads may borrow from the Government fund established out of the earnings of the more prosperous roads, but at terms apparently little better than those ordinarily obtainable in the open market. The Interstate Commerce Commission must have "reasonable assurance of the applicant's ability to repay"; "adequate" security must be furnished. All such loans shall bear interest at 6 per cent. While the Commission is also authorized to build equipment out of this fund, it must consider, when leasing, "the prospective earning power of the applicant." It must have "reasonable assurance of the applicant's ability to pay promptly the rental charges," which shall be *"at least sufficient* to pay a return of 6 per cent. per annum, plus allowances for depreciation." How Congress can expect railroads to pay 6 per cent. for loans and rentals when upon these loans and rentals the roads are permitted to earn only 5½ per cent. is not clear. The only roads which would find it profitable to borrow money or equipment under such conditions would be those earning above the average—precisely the roads that would least need to borrow.

Transportation and Business

THE effects of a grudging and penurious policy with the railroads do not make themselves felt immediately, but accumulate over a long period. Pursued for the last decade, the result of that policy has been to confine and sometimes to strangle industry on all sides. For a number of years investments in railroads have not been as attractive as other investments; railroads have therefore not grown in proportion to other industry.

The railroads are the channel through which nearly all goods must flow during production and before reaching the consumer; today that channel is too narrow. In nearly all basic lines there is a glut. The steel trade journals report that the car shortage is now the only important factor holding steel production in check; the President of the Studebaker Corporation, makers of automobiles, comments in his annual report that "production (in 1919) was hampered by shortages of materials, freight cars and labor"; the Secretary of Labor told the miners some months ago that the chief reason for their periodic unemployment was the chronic insufficiency of railway equipment. The serious transportation handicaps have placed producers everywhere under the compulsion to hold larger stocks, and this has necessitated larger borrowing and increased the strain on the money market.

It remains to be seen how much capital will now be attracted into the railroads. Interest returns, absolutely assured, in equal amount to what the railroads can offer, can be obtained from investment in Government bonds, while investments in other industries offer unrestricted and high potential profits. Congress has seen to it that existing investments in the railroads shall not receive an "excessive" return. But it cannot compel new investments to be made. The present railway law, in dealing with railway wages, provides that the Labor Board shall consider, among other things, "the scales of wages paid for similar kinds of work in other industries" and "the hazards of the employment." Similar instructions might have been given to the Interstate Commerce Commission as a means of arriving at a fair wage for railway capital.

The Outlook Hopeful

ALL these defects in the present law, while they indicate much room for improvement, are not ground for discouragement. The outlook is hopeful. The law is subject to amendment and may be liberalized as the Federal Reserve Act has been. Even a 5½ per cent. return would seem to entitle the railroads to a net annual income of at least $1,000,000,000 in place of the present rate of $600,000,000. Moreover, the rate of 5½ per cent (plus a discretionary ½ of 1 per cent., but only for improvements chargeable to capital account) applies for only two years, after which, under the present terms of the law, the Interstate Commerce Commission "shall from time to time determine and make public what percentage of such aggregate property value constitutes a fair return thereon." The Commission shall "initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each such rate groups or territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal as nearly as may be" to this fair return. New lines, in the discretion of the Commission, may retain, for a period not exceeding ten years, all or any part of their earnings in excess of the average statutory return.

The future of the railroads thus lies largely in the hands of the Interstate Commerce Commission. The Commission will not only adjust the rates to yield the required fair return, but it will fix the valuation from which the amount of this return is to be determined. In its work it will have the co-operation of the railway managers and of the public. It will take time to restore morale, and still more time to overtake the equipment shortage. The Association of Railway Executives is urging shippers to help the roads, in the meanwhile, to get the most out of what they have: "Load and unload cars promptly. Load all cars to full carrying capacity. An increase of two tons per loaded car would be the same as adding more than 200,000 cars to the number available for public use."

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UNIVERSITY OF ILLINOIS LIBRARY
10, 1921

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, May, 1920.

MORE than at any time before, the tremendous destruction of capital and strain upon credit incident to the war are being reflected in the world's money markets. Banks have very generally found themselves compelled to limit credit and to advance interest rates. In New York the ruling rate for commercial paper is now 7 per cent, which, with the exception of 1914, is the highest rate in thirteen years. The Bank of England's new discount rate of 7 per cent is also the highest of thirteen years, with the exception of a short time at the outbreak of the war. Rates that such borrowers as the Pennsylvania Railroad and the New York Central have been compelled to offer are an illuminating indication of the scarcity of credit. In each case, in order to attract buyers for recent short-term note offerings, an interest return of better than 7 per cent had to be named. Inability of the United States Government to place notes on a 4¾ per cent basis has compelled the Treasury to advance its rate, and this has helped in forcing the price of Liberty Bonds sharply downward, so that Government securities are now in some instances yielding more than 6 per cent, the highest income return basis to the buyer since Civil War days.

The upward movement in money rates is not surprising; the position of our commercial banks and of the Federal Reserve Banks themselves for a number of months had given warning of an inevitable tightening of the money market. Business activity in general has not up to this time shown ill effects from the advance in rates and the inability of banks to go on expanding loans, but there has been a noticeable change in attitude and psychology. No positive reaction has occurred in trade; buyers still meet difficulties in getting goods in many lines, and practically every trade report speaks of remarkable activity. Still, the cautionary banking advice that has accompanied the advance in money rates, coupled with the changed attitude on the part of the public with regard to paying high prices, has had not a little to do with bringing about an altered business sentiment.

A New Psychology

FOR more than a year business has been conducted in the United States as if the purchasing power of the American people were limitless. An extravagant use of advanced wages, the spending of savings accumulated in Liberty Bonds, and a liberal use of bank credit have contributed to this. Many persons, having sold their Liberty Bonds or reached the end of their credit facilities, and now finding their income below expenditure, have been compelled to curtail. In addition, the growing protest and resistance on the part of a large part of the public generally against high prices, and a widespread belief that lower prices instead of higher prices are due, have acted materially to alter the situation. Bradstreet's index number shows that since the general level of prices reached its peak in February there has been a decline. On February 1 the figure was 20.869; on March 1, 20.795; on April 1, 20.712.

Not many months ago buyers were so anxious to get goods that price became a secondary consideration. Deliveries could be obtained only after long delays. Sellers were booked up with orders for half a year ahead, and called in their salesmen from the road. Today many of these are sending their salesmen out again; and large wholesale buyers report that the daily mails bring an increasing supply of letters soliciting orders and promising "immediate delivery." Another factor is that many sellers are now asking that the price paid be that at the time of the order, an exact reversal of the recent practice of insisting that the price be that at the time of delivery. Many concerns are especially reluctant to make any additions to their plants because they doubt whether prices will stay up long enough to pay profitable returns on fixed investments made at these high prices. Considerable attention has been drawn to recent sharp declines, not only in the stock market, but on the grain and cotton exchanges.

Labor's Efficiency

NEWSPAPERS devote columns of type to prevailing conditions of labor unrest, and one is left to judge from headlines that strikes are all that labor is thinking about. The "outlaw" strike on the railroads called several hundred thousand men away from their work. It resulted in a great deal of harm and suffering, served for a time to check production and halt distribution in many places, and caused grave concern regarding the stability of American industry. Yet that strike and the others that accompanied it should not be taken as the beginning of a fresh wave of unrest. Its failure, the spirit of impatience manifested by the general public to stoppages of work, and the overshadowing fact that on the whole labor is now well paid, are all favorable indications. Average wages prevailing not only offset the increase in the cost of living in the last five years but actually exceed it. The figures of the New York State Industrial Commission show that while food prices advanced 102 per cent from June, 1914 to February, 1920, average wages in New York State factories advanced 108 per cent.

A serious side of the present industrial problem is of course the shortage of labor and its greatly reduced efficiency. The shortage itself is probably the leading cause of this reduced efficiency, because it has given men a sense of an absolutely secure hold on their jobs, and this has lent itself readily to abuse. The National Association of Credit Men, through its organ, Credit Monthly, recently addressed a questionnaire to factories in leading lines of business throughout the country. Out of 169 replies to the question, "Do you feel that your labor is as efficient as it was in so-called "normal" times?" 3 per cent thought it more efficient, 11 per cent found old labor as efficient as ever, but new labor less efficient, and 70 per cent found all of its labor less efficient.

The tide, however, seems to be turning. To another question asked by the Association, "Is your labor more efficient than it was three months ago?" most manufacturers reported no change at all, and 6 per cent reported a decrease in efficiency, but more than one-third found an actual increase in efficiency. It is fair to conclude that the total production in March, 1920, of *all* the labor represented in the replies was above that of December, 1919.

Labor and Immigration

WHAT is of present concern is whether the labor shortage will diminish or become more acute. A great deal rests upon the tide of immigration. In the twelve months immediately preceding the war, 1,200,000 immigrants arrived at our shores, and the arrivals in the five years previous to the outbreak of the war were more than 1,000,000 yearly. In the five years that have elapsed since the outbreak of the war, the yearly average has been a little better than 200,000, and that rate of immigration has been largely offset by emigration. In former years our coal mines have depended upon the foreign born for 60 per cent of their labor, and half of the unskilled railroad labor has been foreign. If immigration does not expand largely, and if the present demand for labor continues, our shortage is bound to grow more severe rather than less severe. There are many elements in the situation difficult to predict. On one side the bad conditions in European countries, especially those of central Europe, will doubtless cause an urgent desire on the part of workers in those countries to come to America. On the other side are our immigration laws, and the possibility that labor unions will bring pressure to have these made even more stringent.

Production and Prosperity

PRESENT business conditions are frequently referred to as "utterly unprecedented," but the general characteristics of the present period have often appeared in the past. Nearly fifty years ago, in 1873, Walter Bagehot, the British economist, wrote of these characteristics: "As far as prosperity is based on a greater quantity of production, and that of the right articles—as far as it is based on the rapidity with which commodities of every kind reach those who want them—its basis is good. Human industry is more efficient, and therefore there is more to be divided among mankind. But in so far as that prosperity is based on a general rise of prices, it is only imaginary. A general rise of prices is a rise only in name; whatever any one gains on the article which he has to sell he loses on the articles which he has to buy, and so he is just where he was * * * Neverthless, most people are happier for it; they think they are getting richer, though they are not."

That our present prosperity contains a partly ictitious element would seem to be indicated by some interesting figures recently tabulated by Mr. Herbert Hoover. Total deposits in all the country's commercial banks have risen from $11,000,000,000 in 1913 to $25,000,000,000 in 1919. During the same period the tonnage productivity of agriculture, metals, coal, salt, cement, lumber and the quarries, assumed to cover the great bulk of our products, has increased only 3.3 per cent. The following table prepared by Mr. Hoover, shows the relative changes in physical production, in bank deposits, and in price levels from 1913 to 1919, using the figure 100 in each case as a basis to represent the 1913 level:

Year	Per Cent Change in Production from 1913	Per Cent Change in Bank Deposits from 1913	Department of Labor Wholesale Index of all Commodities
1913	100.0	100.0	100.0
1914	94.2	105.1	99.3
1915	99.3	107.8	100.5
1916	107.5	135.2	120.5
1917	114.8	161.9	175.9
1918	115.4	179.3	196.6
1919	103.3	219.2	214.5

We produced slightly more goods in 1919 than in 1913, and, small as the increase was, we did not have the additional goods to consume. As compared with 1913 we have actually been getting along, since the beginning of the war, with fewer physical goods. That is because Europe has been drawing away a greater part of our current production in recent years than in 1913. Our exports in 1913 were valued at $2,484,000,000; in 1919, $7,942,000,000. Allowing for the difference in price levels, about one and three-fifths times as much goods went out in 1919 as in 1913.

Of course, while we were deprived of these goods, we were in a real sense gainers; for in payment for the goods sold abroad, we now have credits which we can draw on at a later time—at a time moreover, when prices of goods will in all probability be lower, and when those goods will mean a real gain to us.

In spite of the disorganization in exchange rates, and in spite of our failure to extend long-term credits, our export trade has thus far maintained itself in a remarkable manner. During March we exported $820,000,000 of goods, an amount exceeded only in June, 1919. While imports for the month were the highest on record, they still fell $336,000,000 below exports.

Japan and England

RECENT developments in Japan and in Great Britain supply a lesson for us. With the possible exception of the United States, Japan has proportionately benefited more in the last five years in additions to its wealth and gold supply than any other belligerent; yet last month precipitated a financial crisis, brought about by unbridled extravagance and speculation and disregard of caution. Great Britain, on the other hand, bore the financial brunt of the war. Her war expenses were 40 billion dollars compared with our expenses of 20 billions. But there has been no post-war panic or crisis in Great Britain; her unfavorable balance of trade has been growing constantly smaller; and the British Chancellor of the Exchequer was able to announce that for the year ended March 31 revenues exceeded expenditures, a fact which becomes all the more remarkable when it is recalled that our own current expenditures are exceeding revenues, and that a deficit of several billions of dollars in the financial operations of our own Government is predicted for our fiscal year to end on June 30. The advance in the Bank of England rate to 7 per cent is an indication that Great Britain, almost alone of all the nations of Europe, is facing its economic problems boldly, and is willing to pay a price to bring about deflation. The contrast between Japan and Great Britain shows, on the one hand, how a crisis may be brought on in spite of prosperity, and, on the other, how sound conditions may be maintained in spite of adversity.

Government Revenues

IT has been estimated that the United States Government expenditures for the fiscal year ended June 30 next will total $6,750,000,000. This does not include the proposed soldiers' bonus, which if granted would exceed $1,000,000,000 or more, equal to the total average annual pre-war Government expenditure of a number of years. Appropriations for the fiscal year 1921 are estimated at $4,865,000,000, though the Republican House leader has promised a reduction of 25 per cent from this total.

at prices. Tending to pull them down are the shortage of credit, which may continue to force some goods on the market; the economy movement; the protest against high prices; the falling off in purchasing power of people who had consumed accumulated savings and sold their Liberty Bonds; and finally, the very belief that prices are due for a decline. In addition, increased production is indicated in some lines. Tending to keep prices up are the continued shortages of many commodities, with little prospect for relief; the deficiency of railroad equipment already mentioned, which helps to create a shortage of all kinds of goods at the points at which they are wanted, and the disappointing outlook for leading crops, such as wheat and cotton, with the prospect of poor crops in general because of the farm labor shortage. Also tending to hold prices up are the high costs of production, high wages, and the labor shortage which works at the same time to maintain high wages and to limit production.

Foreign Trade and Prices

A HIGHLY important factor, though of uncertain influence, is our foreign trade. Though substantially below the March figures, our April exports were the fifth largest of any month in our history. It is altogether likely, however, that this trade must soon or late begin to show a decline, unless credit is liberally forthcoming. The proper way to finance this export trade is by long-term investment loans. For the past year or more the burden of financing it has been thrown upon the commercial banks. The present alternative is either that these extensions of credit will suddenly come to a stop, because of the present scarcity of credit, or that the loans will go on by further inflation. If the first policy were adopted, it would mean a severe falling off in our export trade, and a consequent decline in commodity prices here. The second course would mean not only that commodity prices would be maintained by the continued sales to Europe, but that continued credit inflation would tend to raise prices of all commodities still more. This continued inflation, and the extent to which it is likely to go, depends largely upon the attitude of the Federal Reserve Board. The alternative could be avoided if the investing public were made to realize quickly enough the national need and the personal advantage of taking long-term European obligations.

There is an historic precedent for some decline of prices at this time. In the Civil War period prices reached their peak not during the war, but one year later. At a basis of 100 in 1860, they rose to 190 in 1864 and to 216⅞ in 1865. It was in the following year, 1866, that the strain upon credit forced commodity liquidation, bringing the level down to 191. The general level of prices never returned to that of 1865; but it is significant that a recovery followed this break, and that prices did not return to their pre-war levels until twelve years after the war.

The Credit Strain

THE credit stringency has become even greater than it was a month ago. The Federal Reserve system's ratio of reserves to combined note and deposit liabilities fell to 42¼ per cent. on May 14, the lowest percentage yet reported. This was brought about partly by depletion of reserve and partly by further expansions of credit. The member banks as a whole have been borrowing heavily at the reserve banks, and the Kansas City reserve institution has put into effect the newly authorized system of graduated rates of rediscount, increased as individual banks borrow above certain limits set for them. The Government has been obliged to raise the rate it pays on certificates of indebtedness to 5½ per cent. The credit strain has shifted from New York to the interior, and whereas not many weeks ago the New York bank w borrowing from Federal Reserve banks in oth sections, it is now lending to them.

The commodity liquidation which appears to have gotten under way in some quarters may lighten the burden upon the banks, and it may be that the worst of the credit strain has now been seen. But prediction proves difficult because of the large number of factors that enter. The autumn always brings additional demands for credit to move the crops. The banks will doubtless continue for a time to be called upon to finance our export excess. Any indiscriminate calling of loans or indiscriminate refusal to renew loans is out of the question; "deflation" at the cost of essential production is not desirable.

It would greatly relieve the present inflation if the Government could arrange for the gradual retirement of the certificates of indebtedness and of the currency and credit at present outstanding against them; and if this were effected, not by levying still greater taxes in order to pay off this floating debt, but by Government economy that would leave a surplus from present taxes to enable the certificates to be paid off. The payment of the soldiers' bonus in the present proposed form, together with the taxes incorporated in the present proposed measure, could not fail to have the most serious effects. Secretary Houston has pointed out that even at present "the total indebtedness of the Government maturing within three years, represented by Treasury certificates, War Savings certificates and Victory notes is in the neighborhood of $8,000,000,000." It is going to require serious effort to finance these maturities altogether apart from the bonus proposal.

The Effects of Extravagance

ANY failure or inability of the Government to bring about a contraction of expenditure does not, however, relieve the private citizen of his responsibility for the correction of present unbalanced conditions. Collectively we have spent a great deal of energy and print paper in denouncing the profiteering of producers, but a large part of that profiteering would have been impossible without the extravagance of consumers. Extravagance encourages the increased production of the less essential goods. The increased production of the less essential goods draws labor and materials away from the production of the more essential goods, and hence creates a scarcity of necessaries and an increase in their price.

Secretary Houston recently announced the Government calculation that expenditures this year on what the Treasury estimates as luxuries would exceed twenty billion dollars, of which one billion would go to candy, $800,000,000 to cigarettes, $450,000,000 to jewelry, and so on. The Collector of Internal Revenue for the New York district estimates that $105,000,000 a month is being spent in this city alone on goods rated as luxuries by the tax. The consumption and production of tobacco has grown year by year. Average production in the United States in the three calendar years 1912, 1913 and 1914 was 983,700,000 pounds; in 1919 it was 1,389,500,000. According to figures compiled by the Automobile Chamber of Commerce, the number of pleasure cars produced in 1914 was 543,679; production in 1919 was 1,586,787; the estimated production for the current year is 2,225,000. Reports of the Bureau of Labor Statistics show that employment in the automobile industry from March, 1919, to March, 1920, increased 37.9 per cent., a greater proportion than in any other industry except the woolen and clothing trades.

What has been the reaction of this upon other industries? The American Contractor speaks of the effect on the building trade:

> "The demand for sheet steel by the automobile industry has been so great that it has handicapped expanded metal-lath business and the price of wood lath has gone up from $3.50 to $23. It is said that almost the entire year's available supply of six-inch pipe has already been bought by the automobile industry. Labor, which formerly worked in the cement quarries in Bay City, Mich., in the summer, and in the lumber camps in the winter, has gone to the automobile industry in Detroit. One automobile concern alone is handling ten cars a day of freight into Chicago, while the building industry can not get roofing material through to roof buildings partly constructed."

Smaller Crops

THE effect on the farms of labor's desertion of agriculture for industrial trades is serious. The Government May 1 forecast of winter wheat production this year is 484,647,000 bushels, 33.8 per cent. below last year's crop. The winter wheat crop is usually two-thirds of the total, but spring wheat is not expected to exceed the average on account of poor sowing conditions and the labor shortage. The Department of Agriculture has estimated that hired farm labor is 12 per cent. less than a year ago and only 72 per cent. of what it was before the war, while the Standard Daily Trade Service reports that in New England the farm labor supply is from 35 to 45 per cent. below normal, with a 25 per cent. reduction in the acreage devoted to general farm crops as the result. The reduction in market garden acreage is reported as even more serious, being estimated at not less than 50 per cent. In the three years ended June 30, 1912, 1913 and 1914, the per capita production of wheat in this country was 7¼ bushels, of which 1¼ bushels per capita were exported, leaving 6 bushels per capita for consumption. The present crop is expected to total less than 7 bushels per capita, and if exports maintain the same ratio as in the year ended June 30, 1919, the last for which complete figures are available, at least 2 bushels per capita will be sent abroad, leaving us with less than 5 bushels per capita. The tonnage productivity of agriculture, metals, coal, salt, cement, lumber and the quarries, practically all representing essential products, increased from 1913 to 1919 only 3.3 per cent., an increase which did not keep pace with that of population.

This contrast between the comparative production of the less essential goods and of the more essential goods should suffice to show that it is individual purchasing power and not social need that often determines what goods shall be produced and in what amounts. The desire of rich Americans for expensive foreign limousines will lead to the production of these limousines in Europe to satisfy that American demand, while the need of food for starving women and children in many European cities will not succeed in increasing the production of food in either America or Europe, because these starving peoples, in the absence of charity, have not the purchasing power to bid up the price of food sufficiently to encourage its production and allow farmers, in turn, to compete for labor against less essential employments.

Need for Balanced Production

"PRODUCE more" has been urged as the great panacea for our present ills. This, of course, is as true as it is obvious. It is not only desirable to produce more now; it is always desirable to do so. But it is easier to talk of more production than to effect it. The result of the shortage of labor is not only to limit production because of insufficient man-power, but by giving the men a feeling that they can always get work, it reduces the production per man. Immigration would help to correct this, and it is significant that immigration authorities report that foreigners are coming to this country as fast as the limited transportation facilities can bring them, and that there is every evidence that, even with the post-war passport restrictions, there would be the greatest rush of people to this country ever known if there were only ships to bring them.

But as at present the supply of labor and materials and capital is strictly limited, our attention, once we get labor, to recognize the necessity for maximum production, would better be given to seeing that that production is properly directed, that it is not misguided, that we have maximum production of the right things, and not of the wrong things A restoration of Government restrictions and "priorities," though it may now be forced by th railroad congestion, is to be avoided where possibl Such restrictions are usually clumsy and arbitrary tie business in a tangle of red tape, and are ofte stupid. But upon each citizen rests the duty o thinking carefully about his expenditures, an recognizing that the manner in which he spends hi income in these unsettled times is as important t the nation as the manner in which he earns it.

There is no danger of a general "over-production." But a condition of unbalanced productio already exists, and this condition threatens t become more serious unless it is recognized in tim and the proper remedy—voluntary thrift—applied There is danger of over-production of some commodities in relation to others, though the better wa of statement is that there is under-production o these others. The trouble on the railways is n a glut of goods, but a shortage of labor and railway equipment. Extravagant expenditur brings increased facilities for producing luxury goods to meet the expected continuation or increase of the demand, and if manufacturers in these luxur lines over-estimate this future demand, they wi produce more goods at present high costs of production than can be sold except at a loss. If tha should occur, men in those lines would be throw out of work, and there would be a falling off i general production and much individual distress until these workers were absorbed in the more essential lines. Unbalanced production will correct itself in the long run, but if this correction i brought about by voluntary thrift, it will come without painful readjustment.

It would never be more absurd than now to say that saving, by reducing the demand for certain goods, would throw men out of employment. It is a continuation of extravagant spending, as w have seen, that will be more likely to do that. Saving will merely prevent undue expansion of the less essential industries, and the excess saving wil be available for investment—for the extension o loans to rehabilitate Europe and as the sorely neede capital for our railroads and other vital industries, to build up their productive capacity and t provide the country with an increased supply essential goods.

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HE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

NEW YORK, July, 1920.

DISCUSSION of the political platforms and nominations is occupying the front pages of newspapers for the time being, and interest in the current business situation ems almost to be obscured by it. The pres- t great attention given to politics, however, not merely concern over politics for its vn sake. It reflects the belief that the Adminis- tion of the next four years will exert a powerful d perhaps determining effect upon the course of usiness in those four years. It is true that the ility of any political party or of any adminis- ation to work positive good or to "bring pros- rity" is commonly exaggerated. Nothing can take e place of maximum production and economy on e part of the people themselves. Yet the influence Government on business, and therefore the in- ence of politics on business, was never greater an at the present day. This influence is the out- owth of three facts. The first of these is the creased powers of the Government which are gely the heritage of the war—the Lever law, p operation, the new railroad act. The second the existence of the Federal Reserve system and great power invested in the Federal Reserve oard over currency and credit. The third is the act that the Government today, in time of peace, spending from five to six times as much as in the ears just preceding the war.

emand for Government Economy

THE first demand that business and the country will make of the coming Administration is economy. Greater economy would have been mpelled long ago if the nation as a whole appreci- ed just how widespread the effects of Government xtravagance have been. The most obvious result f the heavy expenditure is being seen in taxation. he need to turn billions of dollars into the public coffers has caused the adoption of doubtful taxes, which have fallen in many instances with little relation to the ability to bear them, have drawn heaviest on the normal savings of the nation and have dried up the sources of new investment funds; funds that would otherwise have gone to restoring the railroads, to making possible the sound financing of our export trade to Europe and to building new factories or launching new enterprises to increase the nation's capacity for producing wealth. Most disturbing of all has been the excess profits tax, which, not to speak of the intrinsic unfairness and inequity with which it has fallen, has discouraged production on many sides and encouraged extravagance and waste everywhere.

Government Waste and Inflation

A SECOND effect of the lavish Governmental spending has been to inflate the currency and credit of the nation, with the continuing distress and unrest to which that has given rise. This inflation has not, it is true, been an inevitable result of the heavy expenditures. It has come about through the Government's method of financing. The banks have been urged to take the short-term certificates of indebtedness (of which after July 15th there will still be outstanding some $2,250,000,000) and against these, Federal Reserve notes and bank deposits have been created. But while the heavy expenditures did not make this method of financing unavoidable, it would never have been needed without them. If expenditures were now reduced, so that they were exceeded by revenues, the surplus could be used to retire the certificates of indebtedness, bringing a corresponding contraction of currency and credit, all without injury to business, because this part of the expansion of currency and credit does not represent the needs of business, but the needs of Government. In fact, business would be rendered a great positive service, for the retirement of the certificates would lighten the burden upon the banks and the money market, and the banking funds freed by this operation would be available for loans to industry.

One of the first steps toward Government economy will be a scientific budget. A bill for a budget was passed by the last Congress, but vetoed by the President on a constitutional consideration. As this was apparently not essential to the measure, the early establishment of a budget can be confidently looked forward to. But it will need more than a change of system and method to bring Government economy; it will need a change in spirit. No business firm can properly economize without a proper system of accounts, but accounting will not in itself bring economy. There must be the will to economize. A budget is not an end, but a means.

While a revision of the tax system, transferring part of the burden now placed upon the normal savings of the community to the normal expenditures of the community, and eradicating the other evils just referred to, will naturally be expected, not too much is to be hoped from a mere change in the nature of our present levies. There has been far too great optimism in discussing the effects of this or that substitute for some existing tax, as if the substitute would barely be noticed at all. A pack horse can carry a given load more easily if it be better distributed, but what he mainly appreciates is a reduction of the weight carried.

Labor Rights vs. Public Rights

BUSINESS and the country will demand of the coming Administration more courage and firmness in dealing with the labor problem. The rights of labor must, of course, be fully recognized; its higher place in the world must be acknowledged; its legitimate aspirations must be forwarded. But it must also be impressed with its social responsibilities. In a recent debate between Governor Allen of Kansas and Samuel Gompers, Governor Allen asked this question: "When a dispute between capital and labor brings on a strike affecting the production or distribution of the necessaries of life, thus threatening the public peace and impairing the public health, has the public any rights in such a controversy, or is it a private war between capital and labor? And if you answer this question in the affirmative, how would you protect the rights of the public?"

Mr. Gompers did not answer the question during
the debate. He begged to be allowed time. A
days later he stated that "The public has no ri
which are superior to the toiler's right to live."

Talk of the "toiler's right to live" is an obv
evasion of the question. Workers strike not
actly for the right to live, but for higher wa
shorter hours, union recognition, and similar
mands. To brand every attempt at legislatio
prevent strikes as an attempt to enforce "econ
slavery" or "involuntary servitude" is absurdly
from the facts. There has been no legislatio
prevent individuals from leaving work. There
been no legislation to stop underpaid teacher
individuals from deserting the profession in g
numbers. There has been no legislation to
vent farm hands, badly needed as they are, f
leaving for more attractive offers at indus
plants. And there will not be. What the un
have been asking is not the right to quit work,
the right to quit work collectively, suddenly, w
out warning; the right to prevent others from pe
ably taking their places; the right to obtain t
demands under threats and coercion.

If there were any way of calling a strike so
its evil results would not fall primarily upon
public, if there could be a strike in which produc
were maintained, and the only thing stopped v
the profits of the employers from that product
then union leaders might plausibly insist upon
right to strike without "outside" interference.
the real damage wrought by a strike is not the
to the employer; it is the loss to the commu
Most strikes are not a direct coercion of the
ployer. They are an attempt to coerce the pu
into coercing the employer. They are most fe
in proportion as they are most damaging to
public interest.

When labor unions include in their member
more than a certain proportion of the workme
any industry, they become essentially a monopol
labor. Their purpose is exactly the same as
of monopolies in goods. The question in dea
with them, then, is whether to limit their siz
growth, as the Government has attempted in
steel, oil and food product industries, or whe
to recognize the inevitability or the desirabilit
the monopoly and to control it, as we do the
roads, telephone lines and other public utilities

The unions and the Government must recog
that the right to strike is relative and not absol
it must be subordinated to the rights of the pu
This does not mean that the new Administra

ould be antagonistic to labor, or that it should
use to examine fairly and thoroughly all real
evances. But it does mean that insofar as Gov-
mental agencies undertake to intervene at all in
removal of industrial strife, the test of their
icy, whether that policy appear in general legisla-
or in the settlement of particular disputes,
uld be how their action is likely to contribute in
long run to the general welfare of the whole
on, and not simply to the welfare of a particular
s. As the growth of industry, of the factory
em, of large units, of natural monopolies,
ught about the abandonment by Government of
old *laissez faire* or "hands off" policy in regard
industry, so the growth and development of
onism has made labor control as necessary as
trol of the railroads or of gas companies. The
ory that a strike on a public utility is a private
between labor and capital, and that it is none
the public's business, is a theory as obsolete as
stage coach. To grapple with the labor problem
he next four years the coming Administration
need wide sympathy and understanding, but
pathy and understanding must be combined with
ness and courage.

at Has Happened to Prices

HE passage of time has enabled the business
community to obtain a better perspective of
exactly what is happening to prices. When
first slashes came in retail department store
es, featured by startling front-page headlines
he newspapers, there was an undercurrent of
that a crash was imminent, or that a price
c had arrived. Very shortly, however, asser-
s were common that the cut prices were mean-
ess, that they were made by the stores whose
s had already been above the general level,
they were the customary seasonal reductions
d up in a new way, that they were due solely
mporary conditions, a shortage of credit and
ht congestion, and that when retail stores were
pelled to re-stock, prices would go back to where
had been.

ime is showing that neither of these two views
correct. Reports from leading European
ntries indicate that the decline in prices has been
ld-wide. Prices in Great Britain, which reached
r highest point at the beginning of April, fell
ing both April and May, and there, as here,
tiles led the decline. Bradstreet's compilations
w an average decline during May of 4.1 per cent. in the wholesale prices of 106 representative commodities in this country. This decline brought prices to the level of last November; it was the greatest fall in any single month since January, 1919, a month or two after the armistice. With that exception, in fact, there has been no decline to approach it in any month even if one goes back for the past ten years. This should effectually dispose of the contention that this was a "mere seasonal decline." Moreover, it was not confined to textiles, but was noteworthy in metals, hides and leather, live stock, oils, fruits, provisions and naval stores. Nor did the movement stop in May. Reports from over the country indicate that since June 1 in many lines a sagging tendency has set in. The break begun in retail lines is extending backward. Fewer orders have come into wholesalers, to jobbers or to manufacturers; in some instances price quotations have fallen, in others they remain at previous levels only because there is not enough trading really to establish a market. Inactivity has set in in raw wool, hide and leather, cotton and woolen piece goods lines. The demand for new automobiles is reported as less keen.

Instances in which the general sagging of prices has been due either to greater production or to lower cost of production are practically negligible. Production, if anything, has suffered, under the influences of freight tie-ups, coal shortages, fewer working hours, strikes and other handicaps. How, then, it will be asked, has it been possible for prices to fall, and how is it possible to predict any further decline?

Why Prices Have Been Falling

THE answer is that the fall of prices has come about through an alteration in demand, and that while the objective or physical props still work to sustain prices, the psychologic prop has been withdrawn. Intrinsic influences remain, but the speculative influence is disappearing. The present situation may be best understood by drawing an analogy from the stock market. An upward swing in stock market prices may begin because of larger earnings or larger dividends, and the first rise in prices may come from buying by investors. As soon as this movement gets well under way, however, speculators enter the market, who buy stocks, not to hold themselves, or for their inherent worth, but simply on the belief that they can sell them at still higher prices to someone else. Finally, as prices continue going up and up, the possibility of reaction is more and more ignored. So far as their own mental processes are concerned, speculators are buying and selling *prices,* and not *stocks;* and stocks go far above the level at which investors are interested in them—in the stock market phrase, they go above "intrinsic values." Soon or late, some unfavorable happening brings this movement to a halt, and there is a sharp break. But if fundamental conditions still warrant high prices, prices do not return to the point from which they started; they merely lose the surplus inflation given them by over-sanguine speculative ardor. The first break may even be followed by a recovery which takes prices part of the way back, though not the whole way; the old high point is not reached again, and after the short-lived recovery prices begin to sag off slowly and without violence.

This speculative break represents what has happened to commodity prices, and though, as in the stock market, prices of a few particular things may continue to mount, the general tendency will probably be downward, at least until "intrinsic levels" are reached. The main result will be to narrow the seller's margin of profit rather than to cut into costs of production.

Of equal importance with the psychologic factor in bringing prices down has been the shortage of credit and the high rates resulting from it. With commercial paper now moving at 8 per cent. merchants will be prone to carry as low a stock of goods as they can. Unfortunately, present high money rates work in some instances to hinder commodity production; but commodity speculation suffers even more. Banks whose funds are so greatly needed for productive enterprise will be inclined to lend as little as possible to speculators who wish to carry goods merely in the hope of a higher price. In the money market there has been a tightening of credit all around. The Government is now paying as high as 6 per cent. for its short-term borrowing, a rate not touched since 1865; the New York discount rate has been raised to 7 per cent.; and the Federal Reserve Banks of Kansas City, Dallas, St. L and Atlanta have applied the powers conferred the recent Phelan Act, so that some member b in those districts are reported to be paying as h as 15 per cent. for part of their borrowings. T rates are without precedent. Recent weekly eral Reserve statements show that they have effective, and that contraction of currency credit has set in. Part of this contraction ma the result of the usual summer dulness, but in event the banks will need all the surplus len power they can accumulate to take care of the demands in the fall.

Crops and Business

CROP prospects in the western states are proved; among the most encouraging of cent developments is the betterment in wheat crop outlook. The total wheat productio 1920 is estimated by the Department of Agric at 781,000,000 bushels. The indicated crop most a fifth less than the crop of last year, b is only a little short of the average crop of 1918, which included the three largest crops in history, with the exception of last year's. The dition of the cotton crop, however, was 62.4 cent. of normal on May 25, announced by the partment of Agriculture as the lowest mark o record for fifty years. The present will be sixth consecutive short cotton crop, and be the smallest of all of them. The fr congestion is being relieved, but improve has been slow, and fresh strikes of yar are not helping matters. Against these unfav factors stands the amazing manner in which export trade sustains itself, in spite of transport and financing handicaps. Not only was the e excess in May the greatest in six months, bu exports themselves were the greatest ever rec for May, and with three exceptions, the g for any month in our history.

UNIVERSITY OF ILLINOIS
JAN 26 1921

HE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, September, 1920.

HE excited post-war activity of American business reached its climax several months ago. The transition from that excited ty is proceeding, but the sharp adjustments vere predicted early in the summer, and that considerable apprehension at the time, have me about. On the contrary, "deflation" is ding quietly and without alarming features, he country continues to experience a pleasant f commercial blood in its veins.

e are still in an era of high prices, high wages, ation of currency and credit, and of more or less ormal conditions generally. A return toward nal has been begun, but there are many cross- ents and tendencies to confuse observers, and impossible to tell, from day to day, how much ress has been made. A downward tendency in s continues to manifest itself, and a shortening th commercial and bank credit is being impelled arly every part of the country. But the lack estment capital to the proportion required is and more emphasized; thrift and economy are ore freely preached than practiced; transpor- conditions are still such that many goods undistributed and credit is tied up; European are seriously disturbed by economic handicaps olsheviki aggression.

se are some factors of the transition period re not favorable to active business. Never- the feeling that an orderly adjustment er way and that the situation is not funda- lly unsound has caused a revival of hopeful ent. A policy of prudence seems to govern, is in decided contrast to the policy that ned affairs up to a very little while ago. the reaction under way is orderly, and, basing opinion on obvious factors in the situation, ness men are preparing for a fall and winter considerable activity. An improvement in nearly all the crops (with harvests in prospect that are given a value by some authorities of $22,000,000,000), has had a lot to do with the improved sentiment that is now observed. Sentiment has been helped, also, by the brightened prospect of the railroads, by the stabilizing of the money market, by the continued large demand for goods in all domestic markets, and by the fact that labor, as quickly as it is released from one industry, finds itself readily absorbed by others.

Stabilizing Money Rates

IF anything, the situation in the money market is less strained than it was in the early summer, but there is little recession in rates, and in view of the crop-moving demands from the west, none is looked for immediately. The months of September and October usually impose upon the New York city banks a burden to assist in the crop moving. Inasmuch as the crops this year will in some cases exceed all previous records, and are commanding high prices, the interior is counted upon to draw heavily upon the east, and in that way intensify the demand for funds. There is no cause, however, for undue apprehension regarding the ability of the banks to meet all necessary requirements. Crops will go forward to market slowly, owing to the inadequate condition of the country's railway lines. Moreover, with the available resources of the Federal Reserve System to support the banks, it is expected that no material advance in commercial rates above the present figures will be seen.

The policy which the Federal Reserve Board has announced of bringing the credit structure of the country down to a sound basis is one in which the banks of the country generally are sincerely endeavoring to assist. Borrowers also are coming generally to appreciate the forces that underlie the current situation, and though there is no evidence that bank loans for the country as a whole have been materially decreased, there is reason to believe that success is attending the efforts of the banks to stabilize rates, in the interest of the country's industry and commerce.

Deflation and Money Market

THE fact that bank credits continue extended, even though 8 per cent is the prevailing rate for commercial loans in New York, must not be construed as meaning that deflation is not going on. Deflation is progressing in an orderly way; manufacturers are conducting their affairs cautiously, and merchants are not inordinately building up their stocks. The recent occurrences in the wool, silk, leather, rubber and sugar trades, where prices fell more or less severely, have had their effect upon business sentiment, and credit is not being urgently sought, as it was a few months ago, for the purpose of expanding existing capacity. Rather, credit is being required for seasonal needs, and also to protect inventories and enable a gradual liquidation of stocks that are now on hand.

It has been suggested that if merchants would bring their inventories more in line with the demands of current business, taking losses boldly where necessary, they themselves will face the future in a far more comfortable position than if they refuse until the last moment to liquidate, and they will contribute materially to a strengthening of the country's banking situation.

Good Effect of High Rates

BUSINESS generally is now under the repressive influence of the money market, and the inability of the banks, whose loans are already very largely extended, to grant liberal credits, is not relished by those who would go on borrowing, regardless of inflation or low reserves. However, when special circumstances no longer govern, and when the present remedial measures have shown their effect, the real improvement in the situation will be manifest. It is only natural that complaints should be heard regarding the current level of money rates, which are the highest of thirteen years. As a matter of fact, in view of the present inflation of currency and credit, existing rates, as a corrective, were inevitable sooner or later. By reason of the present level we can be sure that return to normal conditions will be hastened, whereas, had rate been advanced, and had there been more borro more inflation, greater speculation and a prolo of the era of fictitious prosperity, the retu normal would have been seriously retarded, an delay would perhaps have had serious conseque It is obvious that the high interest rates throug balance of the year will help to keep goods m to meet demand, and will prevent hoarding. also will reduce the nonessential demand for at a time when consumption should be restr as far as practicable to essentials.

The Situation in Europe

THE restless and turbulent spirit whic been raging in Europe since the overthrow Czar manifested itself afresh last month, during a time when the American people wer or less indifferent to the progress in Poland o they were inclined to term "another Eur squabble," devoting their attention rather t pressing domestic problems of economic and po adjustment, the menace of a militant Bolsh again showed itself, and affairs abroad into a new political crisis.

For a time Poland, a State set up independ by the Peace Treaty, was overrun by Ru troops and apparently threatened with des tion. Fortunately, at a time when affairs app most dark, and when it seemed inevitable Warsaw would be taken, the Polish troops r and by a remarkable counter offensive drov invaders back.

So far as American business and financ concerned the question of a dispute between and Russia, by itself, is not a large matter question of what is involved in Poland's resist sovietism, however, is a large matter, and wa the serious consideration of every American bu man and student of affairs. For, after all, w not fail to recognize that social unrest, of Bolshevism is the violent expression, is the important present subject facing the world that it holds within itself possibilities mor reaching than any which have confronted ma in a century.

By doctrine and by force of arms, the Bolsh have been seeking, in the Near East as well Europe, to spread their poisonous influence, an eye to the eventual effect upon workers in

ce, England and America. Since the defeat
he Russian armies the danger of an immediate
forcible sovietizing of Poland has been removed,
this has a large significance in world affairs.
h Poland sovietized, the fanatical creed of
hevist Russia would have been given a west-
d impetus; Russia would have become a next-
neighbor of Germany, and Germany would
ntly have been the center of a struggle, not
sarily of a military nature nor one for its
est, but one for the "stamping out of the
eoise," and for the "liberation of all industry
the tyranny of capitalism."

Danger of Bolshevism

PLE of Germany, vanquished in the war,
nomically weighed down and bearing the con-
nces of the Peace Treaty, are far from being as
as they might be, and it would be unnatural
ertain proportion of these people would not
he a movement—revolution or otherwise—that
sed deliverance from some of their burdens.
occurred last year at Munich and Berlin in
articide uprisings was evidence of the feeling
a certain part of the population. But what
d when the revolutionists were put down was
dence that a large majority of the German
are not ready to countenance a political or
upheaval. For all their faults, the rank
le of the German people are of a type that will
e economic conditions at all bearable, adopt
upreme folly of communism, as communism
me to be known in the past few years. Per-
he former ruling classes of Prussia, the junkers
eir kind, not loyal to present institutions,
ght encourage the extreme system, knowing that
t of a prostrate Germany their chances of a return
power would be greater than out of a Germany
rageously rising from its knees. But such a
gerous measure is hardly to be expected.

Far can It Progress?

ILL, the danger to society at large does not
ie in the full adoption of the soviet doctrines,
n the poison that this doctrine may pour into
wise simple and honest minds. The Bolsheviki
ago challenged the institutions upon which
progress of democratic people depend; their
ed object has been to revolutionize the world,
country by country, to establish their doctrine
among all mankind. Whether the menace is as real as the events in Europe during the past few weeks suggest is yet to be determined. True enough, the creed of the communist has found some response, even in this country, in weak or believing minds. By picturing the capitalistic system in foul colors, and by promising a release from the heel of this system, communism has gained its supporters among malcontents—as, indeed, any creed, however mad, does when it is energetically pressed. Unfortunately, throughout Europe, and in the United States as well, there are certain troubles that are not being got rid of speedily, and basing their propaganda upon these troubles, the communists have aroused ignorant sympathy and gained a certain amount of support. We have seen it with us in the demonstrations of radical labor, although here the manifestations have been industrial rather than political, and have been directed in the main against economic conditions which are the consequences of a gigantic war, and must be corrected by economic measures.

The effect here has been seen in strikes, in reduced production, in demands for an enlarged "workers' share of profits," and in efforts to legislate against capital. As careful observers know, the danger has been closer to Europe, and even in England and France, radical labor, tinctured with proletarian doctrine, has temporarily attained a position of influence and has sought to express itself with new authority. In England the effect was shown a fortnight ago when the Labor Party announced its opposition to any British aggression against Soviet Russia, and was met with a statement from Lloyd George that "any attempt to dictate the policy of the government by industrial action strikes at the root of the democratic constitution of the country, and will be resisted by all the forces at the government's disposal."

Offsets to Extreme Unrest

AFTER all, while governments may have to recognize the strength of radical dissensions, we cannot believe that such a system as the one now ruling in Russia could long endure among western people. The social system of Russia that lent itself to Bolshevism is not that of any of the other large countries of Europe. The Russian serf, ignorant, driven through generations by feudal masters, and knowing more than any other word that of "obey," is a different being than the inhabitant of western Europe, whose intellectual qualities would resist submission to a sect, however strong, and whose knowledge of the benefits of the "capital system," so hated by the Bolsheviki, would prevent his wilful overthrow of that system, or his ready acquiescence to the nightmare of chaos and misery that has overtaken Russia.

Still, we have to recognize conditions as they are, and admit that society at large has been affected by the new doctrines that have come out of the war. It bears to be repeated frequently, because of the radical propaganda that would make the American people think otherwise, that Bolshevism, as exemplified up to this time, is not a growth of ideals nor an intellectual advance. It is tyranny of the worst kind. When Kerensky was over-thrown in 1917, each Russian was told he was equal to every other, and a certain small group assumed a temporary authority in order to lead the nation into peace. When that group found itself in mastery, the two extreme opposing systems of government—socialistic liberty and rule by power—coalesced in a vague, confusing swirl, from which emerged a brutal dictatorship. A few men out of the mass having risen above the rest, they, by committing every known crime against a helpless people, became centers of authority, ruling over the State. Theirs has not been proletarianism. It has professed to be, but it has been a vicious and plundering autocracy, devoid of morals, that snatched to itself the rule over a vast region, and gathered to itself as much of the people's property as it could.

When Will Bolshevism Fall?

WE are warned that, sooner or later, unless it falls to pieces from its own rottenness, the communist aggression must be faced and fought by the civilized nations. Withal, he would be a rash man who, minimizing the influence of Russia's sect, sought to name the date for its downfall. was more than five years, from the middle of to the end of 1794, before the French Revolu and Reign of Terror reached a climax, and it another five years before Napoleon, as First Co effected a change in France's form of Governm By glorifying the army and tyrannizing the pe and occasionally butchering those who fail to bidding, the Extraordinary Commission that Russia has up to this time successfully kept to the power of control.

Of course, all this cannot go on indefi and the military defeat at the hand of Polan undoubtedly hastened the inevitable end. inside story of Soviet Russia is not intimately in the United States, but, judging from the r of such authorities as Bertrand Russell and Philip Snowden, the English socialists who re entered Russia as ardent sympathizers c Bolsheviki and came out severely to condem of Lloyd George, the British Premier, the sit is rapidly becoming intolerable and hastenin climax.

Economic laws always assert themselves long run, and we will see what a catastro come upon a people, blindly driven by rule at the time they killed the Czar, preached t man was the equal of every other, who calle downfall of the capitalistic system, and who vic all property rights. But in the meantime ther be only one way to treat the menace of Bolshe as it affects us. That is, to fight it whenev wherever it appears, and so to broaden and the industrial mind of America that labo capital, will vigorously repel the danger. want no desolation in America such as the So regime has brought to Russia.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

NEW YORK, NOVEMBER, 1920.

DURING recent weeks signs have been accumulating that the present rapid downward movement in commodity prices may ery shortly come to an end. Just as, a few months go, prices were bid too high because supplies were nderestimated, so now there is a possibility that ey will fall too low, and that some prices have eady fallen too low, through underestimation of mand. Any further declines in wholesale prices ring the next few months are not unlikely to be set by recoveries in other lines.

This, however, applies to wholesale rather than to tail prices. These have not come down to corspond with wholesale reductions. Retailers who ve taken in stocks at the higher prices are rectant to sell them for less than the expected profit, d are trying to hold off reductions save on goods ught at the reduced values. In some instances ey even continue to offer at the old price goods hich they have bought at reduced wholesale ces. Such a policy cannot long continue. It is sible that retailers in some lines may be able to maintain prices on goods bought at the higher levels until such goods are worked off, but until retail prices reflect approximately the decline already seen in wholesale prices, the present phase f readjustment will not have been completed.

xtent of the Decline

THE very extent of the break in wholesale prices up to this time is an indication that it as about run its course. One hundred and six rticles at wholesale dropped 6 per cent during September, the greatest fall for any single month yet recorded. From the first of May to the first of September the total decline in prices reached approximately 20 per cent. This is the most extensive decline in a period of only five months that has been recorded for at least a generation. Wholesale prices are now at almost exactly the same level as at this time three years ago. Leading agricultural products have suffered most of all. Cotton, from a price of 43¾ cents in July, has fallen to half that figure. Corn is less than one-half its high price in the early part of the year. Sugar has fallen to about one-third of its price a few months ago.

One of the leading causes of the price decline has undoubtedly been the inability of consumers to continue paying the high prices, combined with their feeling that prices were unreasonably high even when they could afford to pay. In view of this, it seems at first glance remarkable that the drastic fall in prices has not stimulated buying. In manufacturing and merchandising lines demand is more hesitant than before. There is only hand-to-mouth purchasing. This is easier to explain from a purely psychologic standpoint than on objective economic grounds. In the belief that prices have still further to fall, a large number of consumers are holding off in all but their most immediate needs. Dealers take only as much as they must to keep going, as they do not want to have stocks on their hands that may shrink in value.

The failure of price reductions to bring an immediate increase in buying, therefore, is not only natural, but inevitable. A period of dulness and hesitancy always follows a period of sharply falling prices. Though sharp reductions have brought no influx in buying, wholesalers and manufacturers are now resisting further declines, on the ground that they would be senseless, and only frighten buyers the more. This position is quite defensible. It is all the more so in view of the decline which has already taken place. If precedent counts for anything, it may be pointed out that while prices have fallen more than 20 per cent in the last six months, it took them twelve years to fall less than 50 per cent to pre-war levels after the Napoleonic Wars. Two years after the Civil War, also, when prices had fallen 12 per cent from 1865 to 1866, a recovery followed the break, and prices did not reach a 50 per cent decline from 1865 levels until more than ten years later.

The Money Market

DESPITE the fall in prices, the lessening of commodity speculation, and the easing of the railroad freight congestion, bank loans have not only failed to fall in recent weeks, but have actually been expanding, and the volume of Federal Reserve notes is now the greatest ever in circulation. This has been due to three main causes: the protection of industry, the continued use of bank credit to finance our excess of exports, and the crop financing. The present state of industry temporarily increases the demand for funds rather than lessens it, as producers, finding that their goods will not sell even at greatly reduced prices, ask funds in order to carry them until they can be sold. Cotton and wheat farmers have been asking the Federal Reserve Board that credit be extended them so that they be not compelled to sell their crops at present prices, and so that they may hold the goods off the market until the previous prices are obtainable, although they have no assurance of the return of such prices. The position of the Federal Reserve Board is that it is not the function of the banking system to attempt to control the course of prices, or to decide what is and what is not a fair price. It is a part of its function, however, to aid in the "orderly" or normal distribution of goods, and in doing this it is just as harmful to the best interests of the nation as a whole to encourage a postponement of the sale of goods as it is to compel their immediate sale. As agriculture is the most essential industry in the country, it will continue to have first call upon credit, but always with due regard to the consumers of the country and to other producing interests.

During the present few weeks we are at the time of year that usually marks the crest of the expansion of credit to meet crop moving needs. As this declines from now on, as funds for the assistance of industry become less needed, and as the prospect grows that our excess of exports may soo in part be financed by long-term investment, in stead of through Bank Loans, the indications ar that at the end of the present calendar year credi conditions will not be so stringent as they are today

Our Loans Abroad

IN connection with the present discussion of t immediate future of our foreign trade, and effect on our credit position among the nations the world, it is not generally realized that t United States, with net loans of from $13,000,0 000 to $15,000,000,000, has already surpassed Gr Britain as the foremost of creditor nations.

The significance of this can only be fully app ciated by recalling the comparative position Great Britain and the United States before war. Great Britain then held undisputed lead ship as a world investor and creditor. Calcu tions of the amount of her holdings of foreign curities ranged from $15,000,000,000 to $20,00 000,000. The second nation in point of foreign vestment was Germany, with about $6,000,000,0 then came France with $5,000,000,000. The U States was not a lending nation at all. It heavily a debtor, to a net amount estimated $4,000,000,000.

It had taken the nations of Europe generati to build up the volume of their foreign loans. I the United States to change from a debtor nat to such an extent into a creditor nation within or three years, was an achievement never paralle by any nation in the history of the world. F the United States to surpass the world's forem lending nation within two or three years mor a result that, up to 1915, not a single financie economist would have dared to predict.

An exact calculation of the present net foreig loans of the United States is made difficult by th miscellaneous nature of these loans. In addition t the holdings of European Government and indu trial securities, a very large volume of credit is he in the form of acceptances, foreign exchan credits, bank deposits, and open account.

From Debtor to Creditor

WHEN the United States began bringing ba its own securities previously held by fo eigners, Mr. L. F. Loree made a thorough invest gation of the volume of railroad securities repu chased. When this compilation was first made u the railway securities held abroad totalled $2,704,000,000 par value. Two years later, or just prior to our own entrance into the war, there had been returned to this market securities with a par value of $1,518,000,000, or 56 per cent of the original total. During the period in which the United States was taking back these securities, our bankers and investors were also making direct loans to England, France and other European nations, to a total of approximately $2,475,000,000, while some investigators believed that there was in addition probably $500,000,000 in the hands of bankers and investors which represented internal foreign government and private obligations not publicly reorded. Thus, prior to our entrance into the war, e had at least cancelled the $4,000,000,000 net mount of our indebtedness existing up to 1914, d possibly had done a little better than that.

Shortly after our entrance into the war, Conress authorized $10,000,000,000 for loans abroad, nd of this amount we actually advanced nearly 9,600,000,000. Careful compilations place priately made loans to Europe at present outanding at about two and a quarter billions, makg the total ascertainable loans at present outanding just a little short of $12,000,000,000. But om March, 1919, when Government loans ceased, the end of July last, the balance of trade in our avor was $4,678,000,000. To this amount must e added $504,000,000, representing our net exorts of gold and silver for the same period, which rings the trade balance to $5,182,000,000. The arge amount of interest due on our loans abroad n all likelihood offset the invisible items against us, and may even have brought a net invisible balance of trade in our favor; however, without attempting to figure too closely factors which are necessarily so uncertain, we may assume the net balance of all trade in our favor to have been in the neighborhood of $5,000,000,000, which means that this sum had to be made up in some way by loans or credits extended.

Of the two and a quarter billion dollars of private ascertainable loans now outstanding, a very large amount was floated before March, 1919. This means that there must now be outstanding at least several billion dollars of credits of various sorts, represented by internal war loans, foreign exchange bills, deposits in foreign banks, promissory notes and acceptances taken by American exporters, and other forms of short-term credits. This mass of short-term financing, which the country's commercial banks have been called upon to supply, is to a large degree responsible for the inflation of credit which has taken place since the armistice. Thus the present net debt of the outside world to ourselves must now be at least $13,000,000,000, and possibly reaches $15,000,000,000.

Credit and Trade Balance

THIS figure more or less directly arrived at may be checked up by the figure arrived at indirectly. By making this indirect calculation we may also derive a clearer idea of how it became possible for this nation to build up its great creditor balance. For the six fiscal years ended June 30, 1915, to 1920, inclusive, our sales of goods to the outside world exceeded our purchases by $17,356,000,000. If this made up the whole of international transactions, it would naturally follow that the outside world now owes us this amount. The goods were not given away. They had to be paid for. If the outside world could not pay in goods it must have given promises of future payment, and we must now hold securities and other evidences of debt representing the amount of these promises.

But there are many other items to be taken into account. There would have to be subtracted from the $17,356,000,000 total our net imports of gold and silver for the whole period of $219,000,000, which, when deducted from the trade balance, leaves it at $17,137,000,000.

For the other items of international balance authoritative figures are more difficult to obtain. In the early part of the period under consideration, assuming our net indebtedness abroad to have been as high as $4,000,000,000, our annual payment to the outside world on this account could hardly have been less than $160,000,000. It was estimated, in the years before the war, that American tourists each year spent from $150,000,000 to $200,000,000 in Europe. Foreign born citizens sent abroad, to relatives and friends, perhaps as high as $200,000,000 annually. Our payment to foreign steamship lines for carrying our goods, ran about $35,000,000 annually. When war actually broke out, however, the expenditures of American tourists practically came to a halt, and remittances of foreign born citizens were largely cut off, so that, in arriving at an idea of to what extent our favorable trade balance was offset by other accounts, we need deduct little for these two items during most of the six year period. On the other hand, we must recognize that ocean freight rates advanced greatly. As time went on, however, our own merchant marine developed to such an extent that we probably now receive for ocean freight rates as much as we pay to foreign countries for shipping goods, if not more, so that this item is virtually eliminated. The item of $160,000,000 in net annual interest diminished until it was wiped out at the end of the second year of the six under review. From that time on, the interest item steadily grew in our favor. The Treasury announced on March 16 last that the unpaid interest on the Government's foreign credits alone, accruing up to November, 1919, totalled $236,000,000, while the estimated interest for the next year was given as $463,000,000. For the whole period, then, it seems more likely, if anything, that the invisible balance of trade was in our favor rather than otherwise. If we therefore assume that invisible items at least do not appreciably diminish the trade difference of more than $17,000,000,000, and if we place our net pre-war indebtedness at $4,000,000,000, we get $13,000,000,000 as a derived estimate of what the probable minimum net amount of our credits extended to the outside world must be.

Comparison With Great Britain

COMPARE this with the present status of Great Britain. In August, 1919, Edgar Crammond, a British authority, estimated in the *London Times,* that the net amount of Great Britain's foreign investments was "nearly £3,000,000,000." This was based on the assumption that some of the loans to Allies and Dominions, including £568,000,000 to Russia, were not good.

Conditions since Mr. Crammond made his estimate have certainly not been favorable to a better investment position for Great Britain. As against a normal deficiency of exports below imports, say in 1913, of £243,000,000, its deficiency in 1919 was £834,000,000, equivalent at the present exchange value of the pound to close to $3,000,000,000, or, at the old ratio of $4.87, to $4,170,000,000. For the first six months of the calendar year Great Britain's deficiency of exports below imports was £385,000,000. As to Britain's invisible items tending to offset this balance, it is true that present ocean freight rates are much greater than before the war; on the other hand, Great Britain is receiving less interest on smaller net investments.

Even assuming, however, that British net investments have not diminished in the last year, Mr. Crammond's figure of £3,000,000,000, trans lated into dollars at the normal parity of about $4.87, gives $14,610,000,000, which compare with our own estimated investments rangin from a minimum of $13,000,000,000 to possib $15,000,000,000.

America's Supremacy

IS it valid, however, at present, to convert pound into dollars at the gold parity? When Grea Britain sells any of its holdings of securities to u at this time, it has to accept the existing discou on the pound, whereas, if this country sells secu ties to Great Britain, it receives the benefit of t premium on the dollar. If, therefore, we transl pounds into dollars at the rate of $3.50, which about the present rate of exchange and approx mates the average rate for the year to date (hig $4.07, low $3.19), we arrive at $10,500,000,000 the dollar value of England's investments, whic is considerably less than the lowest possible est mate for this country.

It may be true that the present rate on th pound is only temporary, that Great Britain within a few years will return to a gold basis and that the pound will then return to parity. But in discussing the present without speculating upon the future, the fact stands out that America has passed Great Britain as the foremost lending nation of the world, and that at the current rate of trade, the outside world continues to pile up its debt to us, while Great Britain has been comparatively standing still.

UNIVERSITY OF ILLINOIS
JAN 26 1921

HE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, December, 1920.

SINESS readjustment in the United States has proceeded at such a rapid pace, and the ecent downward trend of prices has been so that there is no mistaking the distance which ntry has proceeded along the path of afterflation. From prices early in the year, efore the close of November was down .25 to $1.86, corn from $2.31¾ to 95 cents, rom 16¼ to 6⅜ cents, sugar from 23 to ts, cotton from 43¾ to 16 cents. To a lesser meat and dairy products, metals, and almost esale commodities have participated in this Security prices are severely shrunken. al and trade activity are far more curtailed any period since the early months of the Vith sellers of goods concerned over their ries, with buyers holding aloof, with no ce in the market, and with an increased rate of mortality, factories that up to a short time de goods in abundant supply are closed, at as shortly as three months ago was in is idle, and goods for which there was an unsatisfied and even urgent desire led up.

contrast with the extreme optimism prevailing han a year ago, the severity of the present on has thrown a spirit of depression over tire community. This has added to the tum of the decline in prices and intensified rtailment of business in a fashion that mani- afresh how strongly people are governed at by their emotions rather than by their judg- As a lack of buying helped to cause a fall es, the fall in prices has now caused a lack ying. The depression seems at first glance k in a downward cycle, lack of buying causing prices and a shutting of factories, and these n causing unemployment and reduced pur- g power.

Yet such a cycle cannot continue, any more than the so-called cycle which raised prices and wages to their recent extravagant heights. Conditions, discouraging as they may seem, contain within themselves the seeds of their own change for the better. The orgy of extravagance has passed. Dubious enterprises are being abandoned. Much of the labor absorbed by luxuries will now return to the manufacture of essentials. A stop is coming to the wasteful and extravagant business methods that grew up in the last few years. Insecurity of tenure and less overtime work have already greatly raised the efficiency of labor. The efficiency of management will now increase; to overcome the handicaps of high costs of production and lower prices, improved methods of production will be introduced. The freight congestion problem, which for a time seemed insoluble, is solving itself. To the gradually increasing efficiency of the railroads under private management and the return of self-dependence upon earnings, plus higher standards in loading and unloading and in car movement, has been added the factor of a declining volume of goods seeking to be moved.

Accumulating Demand

IT is apparent that the very falling off in buying at this time must soon or late result in a large accumulated demand for all goods. Just as a few months ago supplies were underestimated, so now the tendency is greatly to underestimate eventual demand. It must be remembered that we have still our war-time loss to make up. Not a few of our railroads are worn to bedrock, and all of them require vast quantities of material for their restoration and extension. We have had relatively little building of homes in the United States for years. Much property has gotten along with a minimum of repairs and improvement. Individuals in great numbers have postponed purchases of clothing and other articles of personal use, rather than pay the extraordinary prices lately demanded.

All this signifies a very heavy potential buying demand. In addition, over and above the domestic requirements of more than 100,000,000 people, Europe still calls for great quantities of our goods. Though obstacles stand in the way of exports, (and though foreign sales for some time may be curtailed because of distress abroad, depreciation of foreign currencies and the tie-up of credits), it is inconceivable that our export trade will stop.

As regards the immediate prospect of prices, much will depend, of course, upon the ability of sellers to control the market. It is not possible to say when, exactly, forced liquidation will have reached a halting place. Up to this time the downward adjustment has been quite one-sided; the severity of the break in wholesale commodity prices and securities has not been matched by the fall in retail prices or in wages. These have moved down slowly, and it must be clear to every observer that readjustment will not be on a solid foundation until these have also come down to some corresponding level, or until wholesale prices have regained a part of the ground lost. For many items, still lower wholesale prices may come; for others, irregular changes in the neighborhood of the present level may be expected. For some, however, in which the most severe declines have occurred, we can reasonably expect a recovery.

Effect on Wages

REDUCTIONS in wages of ten to twenty-five per cent. have already been announced in many mills and factories manufacturing the goods that have most severely suffered in price. In some instances labor has taken these reductions without protest. In particular cases workers have even led in suggesting reductions in order that mills might keep running to maintain employment. It would be highly reassuring if the attitude shown by these workers reflected the attitude of labor generally. Such coöperation is in labor's own best interests. Only the lowering of costs of production, including wages, can enable certain manufacturers to keep going at the new level of prices. Labor can keep these reductions to a minimum only by increasing its productivity, by giving a greater day's work. In accepting reductions the workers are not necessarily making a sacrifice, for if wages
drop ten to twenty-five per cent., following a
in prices of a similar amount, the smaller
will buy just as much as before, and there
really be no reduction.

Factors of strength exist today that should
to make the present strain comparatively
Such food yields as those of the present ar
usually associated with industrial depression.
of the country's crops, according to the prelim
estimates of the Department of Agriculture, w
year exceed all previous records. The cotto
will be the largest in six years. Crops as
will exceed the average of the last five years
country is rich in physical goods and in real

The Money Market

THE severity of the liquidation that has
in commodities and securities is finding i
tion in the money market. Evidence that th
stringency has passed its maximum is quite
takable. Rates for commercial loans in New
city were quotably lower at the close of No
than they were early in the month; moreo
reserve ratio of the Federal Reserve System
advanced to the highest point of any tim
July. This is not to say that the violent
in commodities and securities has resto
money market to a position of actual ease; th
fabric is still extended, and, in the interest
customers, commercial banks are still
indebted to the Federal Reserve Syste
largely have the facilities of this Syste
utilized that the reserve ratio, although im
is still not far from its statutory limit. Th
structure of the country is fundamentally
and has withstood the strain of the past few m
in a fashion that directs attention to the d
in which the Federal Reserve System has p
to be a tremendously effective cushion for the
of the country. As it is, the greatest strain
the banks now seems to be past.

Need for Export Trade

IT should hardly be necessary at a time lik
present, when domestic demand for good
fallen off so sharply, to dwell upon the nee
maintaining our export trade insofar as it is p
to maintain it by extensions of credit. E
domestic demand had not fallen, the necess
preventing a sudden shrinkage in our exports

in, because the country's most important
s are produced in quantities to meet not
y our own demands, but the demands of
orld. In 1919 we exported more than a billion
s worth of raw cotton, more than a billion
s of meat products, nearly a billion dollars
and steel and nearly a billion dollars of wheat
her breadstuffs. If our export outlet for these
ems were suddenly cut off, the surplus would
to be sold in America, at disastrously low

with the aim of maintaining our export trade
e American Bankers Association has unani-
approved the report of its Commerce and
Committee, rendered after two years study
nportance of foreign trade to our domestic
y, advocating a $100,000,000 corporation
ne Edge Act. To take the appropriate
organizing such a corporation, a meeting
s and businessmen will be held in Chicago
th and 11th of December. Edge corpora-
empowered to extend long-term credit
nd to issue debentures to ten times their
stock. This would give the proposed
on a maximum financial ability of
0,000.

Long-Term Credit

the Government ceased extending loans
urope, we have been compelled to finance
s of exports with bank credit. This volume
erm credit has now reached almost $4,000,-
and the banks of the country some time ago
ied the bounds of conservatism and safety
lying it. The credit which we extend to
to buy our goods at this time cannot, by
y nature of the case, be repaid for several
Consequently, this volume of short-term
cumulative and must be constantly renewed.
eral extension of banking funds to finance a
ly permanent one-sided balance of trade
en one of the leading causes of the credit
ncy, which in turn has been in large part
sible for the recent violent decline in com-
prices. All questions of banking theory
e country is now confronted with a fact,
fact is that the banks are not in a position
inue such loans. Either our export trade
recipitately fall to meet our import trade,
ask of financing our export excess must be
p by investors.

It is because it will make this possible that the proposed $100,000,000 corporation is so needed. Owing to the foreign exchange rates, American investors can today purchase British-held securities at 70 cents on the dollar, French-held securities at 33 cents on the dollar, and Italian-held securities at 20 cents on the dollar. But the securities are not being bought; and the reason is largely that American investors are not educated to foreign investment; they have not, like British investors, acquired the habit of it. They feel themselves too uninformed on conditions abroad to judge the risk. A corporation such as that proposed would not only diversify the investor's risk, by enabling him to buy a single debenture of an American company secured by scores of different foreign securities, but it would assure him that each one of these securities had been taken only after thorough appraisement by experts sent to Europe to give their entire time to credit investigation.

"European Competition"

ONE fear that is being gradually set aside is that in lending to Europe we would be helping Europe to compete against us in the future. Such a fear arose from a false view of foreign trade. Ultimately, exports must be paid for by imports. We cannot have large exports unless we are willing to have large imports. We cannot keep constantly selling to the rest of the world and then try to prevent the rest of the world from selling to us. It is not only that such an attitude would eventually react on our export trade by breeding a similar attitude in other nations, but such a policy could be maintained only by refusing to take from the rest of the world in exchange for our goods anything but gold (which, at the rate of 1919 exports, would be exhausted in one year), or credit. But if we refused to take goods, we could not even collect the interest on the credit. We would have to be constantly wiping the debt off the books, as it has been actually proposed to do with our Allied loans. The way to grow rich and maintain prosperity is hardly by continually giving goods away.

Of course, there are persons who fancy this country to be so self-sufficient that it could get along without either export or import trade. They might consider what this would mean. Our half dozen leading exports in 1919 were, in their order of value, raw cotton, meat products, iron and steel, wheat and other breadstuffs, mineral oils and tobacco. Our half dozen leading imports were cane sugar, silk, hides and skins, coffee, rubber and wool; while other principal items were cocoa, tin, tropical nuts and fruits, cocoanut oil, olive oil, sisal and precious stones.

It is at once apparent that most of our imports are of articles that we do not attempt to produce at all. Articles competing with our own products occupy a relatively minor role. Our leading exports, also, go principally to nations that do not attempt to produce for themselves the things we send them, and for the same reasons that we do not produce the imports, namely, that there are not the proper climate and soil, the mines for such things do not exist, there is not sufficient territory, or the proper labor skill and business and scientific training are lacking.

Under normal conditions the labor of the country is fully engaged. If, then, refusing imports, we were to attempt to produce for ourselves the goods we now buy from abroad, we would have to take men away from other occupations. This in itself would be easy enough, for if we refused to accept imports or to extend credit no one could buy our exports, therefore we would be compelled to cut down our production of cotton, wheat, steel, copper, and coal, and the farmers and manufacturers thrown out of business, together with the farm hands and miners and industrial workers discharged, would have to be ultimately turned to raising coffee and cocoa and silk and rubber, if we still wanted to use these goods, and if this country could produce any of them at all. But this would obviously involve much greater expense to us than the cost of buying these articles from abroad. The like applies to manufactured articles that Europe can produce better and cheaper than we. Instead of electing to assume the cost to us of producing silk or linen, it is better to continue assuming the much lower cost of raising the additional cotton or wheat to exchange for these things.

Europe Our Customer

THE desire to keep Europe from getting
feet through fear that she will then be
compete with us, is strangely near-sighted. N
could be more harmful to our own material int
It is not only that it would deprive us, as cons
of the goods that Europe would send. It
gravely injure us as producers. The longer i
Europe to recover, the longer Europe will be w
the purchasing power to take our goods.

When it is said that foreign trade is ulti
barter, and that exports must be paid f
imports, it does not necessarily mean tha
imports must come from the country to w
exports have gone. It does not mean that
face competition in our own market.
triangular trade just as there is triangular ex
If we sell raw cotton to Great Britain, we
necessarily take payment in British manu
or even in any products of Great Britain
Britain could sell her manufactures t
Great Britain would owe us and Brazil
Great Britain, and the account could be ad
Brazil sending us coffee. Thus the cotto
to Great Britain could be paid for with
we receive from Brazil. So, then, if w
Europe it does not follow that we must u
accept a corresponding "dumping" of
manufactured goods.

But as our actual exports and imports
the nations of the world, though in many
competitors, bear a far more important re
each other as mutual customers. When
more generally realized there will be a
diminution in international hatreds bred b
rivalries. The nations of the world will en
purchases from each other. They will cease
to see each other weak. They will know t
importance to themselves of maintainin
other's prosperity. The proposed foreign
financing corporation is not primarily al
It is merely a practical step to help Eu
and other countries in order to help ourselv

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E MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, January, 1921.

IRELY apart from the expected effect
n our personal happiness or fortunes,
re is in human nature an instinct of
which impels us to peer ahead in an effort
e future. With business men this is more
stinct, for upon their reading of the future,
the steps they take to meet it, depends in
the degree of their commercial success.
ning of a new year is proverbially a time
tion upon the year ahead. Yet how great
bility to error may be realized if we look
the twelve months just passed. If any
predicted at the beginning of last year,
e was remarkably active, prices high,
ent, labor scarce, goods difficult to obtain,
during the year would fall one-third, the
cline in such a period within the memory
living, it is doubtful whether the predic-
d have been taken seriously. If he had
that in spite of foreign exchange dis-
on, in spite of our refusal to extend long-
lits, in spite of Europe's poverty, and in
he fall in prices, the money value of our
would actually exceed the huge total of 1919,
iction would have met with like incredulity.
considerations may well cause men to
in making pronouncements upon the year
In many respects there is now greater
in reading the future than there was
onths ago. In two months from now the
at has been in power at Washington for
ars will turn over the reins of Government
hands. The new Administration will mean
new political policies, but new business
and there has never been a time when the
policies of the Government were capable
g a greater influence on the business future.
ow levying the greatest total of taxes in
ry. That total, in the coming year, is not
be greatly changed. But the nature of
the taxes may be radically revised, and the changes cannot fail to affect trade and industry profoundly. The tariff, always of prime importance in its effect upon the direction taken by our productive activities, will again come up for consideration. The funding of the Government's great mass of short-time indebtedness will be discussed. New foreign policies will affect our commercial relations with the world.

Aside from this influence of Government, the future of business will depend on factors of the greatest importance. It is possible that conditions in the money market, the rates demanded for investment borrowing as well as the rate on commercial loans, will be watched with even more interest by business in the year ahead than in the year just passed. The course of foreign trade, with its great influence on prices and domestic activity, will be followed with still greater concern because of the falling off in home demand.

Depression and Revival

Undoubtedly the foremost question in the collective mind of commerce and industry today is how long the present depression will last, whether it will become more severe, and what time will mark the beginning of a revival. The answers to these questions depend upon a multitude of factors, psychologic as well as economic, and answers cannot be given with any finality. But we do know that trade cannot remain long in its present position.

Abnormal conditions correct themselves. If the pendulum swings too far in one direction, it will swing in the other. Just as the rate of buying a year ago was abnormal, so the present rate is subnormal. Because the former rate of spending was too fast, it brought exhaustion of resources and savings. It is these violent swings in buying demand that unsettle business. Business men, sometimes becoming over-sanguine, assume during

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a period of extravagance that the rate of spending will continue; they produce to meet it. If it falls suddenly, there is a condition such as the present—a surplus of goods, lower prices, a wiping out of profits, smaller production, part time, closing mills and factories, unemployment.

Prices and Purchasing Power

BUT the present under-buying, like the recent over-buying, will in time work its own cure. Purchases of the great mass of goods may be postponed, but they cannot stop. The longer they are put off, the more the demand must accumulate, and the greater it must be when resumed. The ultimate demand for some leading commodities is now under-estimated, and the prices of these may shortly be expected to recover somewhat.

Much that is now being said and written assumes that the present unemployment, brought about by falling prices, will itself be a cause of still lower prices, because it diminishes purchasing power. What is overlooked in this line of reasoning is that unemployment means lessened production. As a factor making for a recovery in prices, this more than offsets diminished purchasing power. For while the unemployed cease altogether to produce, they cannot cease to consume. They must continue to buy necessities for themselves and their families; and if they have no accumulated savings, they will go into debt. Lower wages for those remaining at work mean lower purchasing power; but they also mean lower production costs, and manufacturers can afford to sell more cheaply. Lower wages, therefore, will not in any long run adversely affect the actual volume of goods purchased.

The probability of an early recovery in buying and in prices of certain commodities does not mean that the readjustment has not still far to go in other directions. When a normal rate of purchasing is resumed, it will be upon a lower level of prices than we have seen. With the holiday purchasing over it would not be surprising to witness the beginning of the overdue reduction of retail prices, to correspond in some degree with the average fall in wholesale prices to two-thirds of their former levels. The reductions of 22½ per cent in the wages paid by the textile mills of Maine and Rhode Island, and of as much as 25 per cent by some important iron and steel companies, indicate the beginning of a more general readjustment of labor costs.

The Cancellation Evil

THE present situation has been
aggravated by the widespread cancella
sales contracts. According to a statement ma
before the close of December by Charles L
heimer, Chairman of the Committee on Arb
of the Chamber of Commerce of the State
York, more than $2,000,000,000 worth
chandise is to be found on piers, in wareho
railroad stations, on cars and in steamship
United States, ownership of which is
because of fault finding, attempted can
and actual cancellations; while another $1
000 worth of American goods abroad is
under similar circumstances.

Caught in a falling market, many buyers
seeking to avoid their share of the se
outright repudiation of orders. Domest
have cancelled orders for goods in process
facture, and this has made the manufa
those goods, in turn, feel impelled to car
contracts. Firms abroad have refused
American goods at high prices, which ha
been completed and shipped, and yet repr
of those same firms are reported now to
in the market here at the new level of pr

That the cancellation evil has spread
lines, that it has become world-wide, and
differences over technicalities in cont
often made the excuse, does not raise the
of the act nor alter the seriousness of
Many of the buyers who seem to imagine t
the market goes against them a contract
be a contract, were bringing suit a short t
when prices were rising, for delayed deliveri
orders. What is needed in business is mo
code of business ethics prevailing in Wa
On the floor of the Stock Exchange brokers
seconds enter into verbal contracts with e
involving tens of thousands of dollars; the
pencil memorandum of each transaction
and do not even exchange memoranda.
foreign exchange dealers rapid contracts
over the telephone involving large sums.
case, no matter which way the market
tracts are scrupulously observed; there is
dispute, and never a "cancellation."

On December 2, the Committee on Fin
Currency of the Chamber of Commerc
State of New York submitted to that

opinion that the loose business methods which enable purchasers to reject goods whenever prices decline will cause a perilous business derangement at every downward turn. "The uncertainty created by the sway of such vicious practices," said the Committee, "extends far beyond the two parties immediately affected, it spreads like a contagious disease and ultimately undermines and menaces the safety of all branches of production, trade and finance of the country. For our whole economic structure rests upon a contractual basis and upon a clear recognition of the sanctity of business obligations." The Chamber unanimously adopted resolutions which in part read as follows:

> Resolved, That an effort should be made on the part of the business community to incorporate into written contracts a frank stipulation respecting cancellations, in order that business may be established on a clear and definite contractual basis, and that the possibilities of misunderstanding and disagreement may be lessened and an element of dangerous uncertainty be removed; and be it further
>
> Resolved, That the Chamber of Commerce urge upon the business and banking communities that buyers who disregard their written agreements shall be considered as being lacking in business morality and as undeserving of confidence: and that business and banking leave no doubt that attempts wilfully to violate contracts, shall be frowned upon as violating the code of business ethics on which rests the entire structure of American industry, commerce and trade.

The Money Market

THE Federal Reserve System's ratio of reserves to deposits and notes combined was 45.6 per cent on December 18 as compared with 42.7 per cent two months before. That was the highest reserve ratio reported for the entire year, and the advance is to be cited as one of the most encouraging developments of the recent past. Loans of the banks and trust companies that are members of the New York Clearing House have fallen $200,000,000 in the past two months.

What seems at first surprising is that outstanding credit is now substantially in excess of what it was a year ago, when general trade was much more active and when the level of wholesale prices was nearly fifty per cent higher than that of today. Bills on hand at the Federal Reserve Banks exceed the same item a year ago by $193,000,000, this also in spite of the fact the Government has reduced its borrowing, and that bills secured by Government war obligations have fallen in that time by $333,000,000. This cannot be accounted for on the ground that the member Banks are leaning more heavily on the Reserve Banks than they were last year. Loans of the New York Clearing House Banks alone exceed those of a year ago by $300,000,000.

The explanation is to be found in two main factors—the continued extension of short-term credit to finance our excess of exports, and the protection by the helpful use of bank credit, of industry and agriculture. The immediate future of the money market depends largely upon the immediate future of these two factors. During both October and November the tendency of exports to fall and of imports to rise curiously reversed itself. For the two months combined our excess of exports was $772,000,000. If the world's demand for our goods continues large, and if the excess of exports is not offset by long-term credits through the proposed $100,000,000 Foreign Trade Financing Corporation or other agencies, there will be continued demand on the banks to finance this trade.

Large loans have been called for to protect inventories, and this has tied up credit in goods that are difficult to move even at the greatly reduced prices. This is not true in every case; there are farmers who could sell now without difficulty, but who do not want to because they consider present prices unfair and hope for recovery. The plea for more liberal credits to the farmers continues to be heard, but it is believed that the salutary lessons of the closing months have had their effect, and the "pooling" of farm products, through the means of bank credits, is destined to lessen. If this develops shortly, it should not be long before credit conditions become easier.

Embargoes and the Farmers

THE agricultural interests have suffered such severe losses in the recent collapse in the market value of their products that special assistance continues actively to be urged in their behalf. When the economic processes are not thoroughly clear there is a widespread belief that all ills can be cured and the consequences of maladjustment escaped by legal enactment. It was not many months ago that legislators were considering plans to punish "profiteers" and restrict business profits. Now they are considering how to enlarge business profits and compel consumers to pay higher prices.

The proposal to extend Government help to enable producers to hold goods back from market is one phase of this. The purpose of such a proposal is avowedly to raise prices. If successful, every consumer in the country would virtually pay a tax, not in proportion to his ability to bear, but in proportion to his necessity for consumption; and the proceeds of this tax, instead of being paid over to the Government, would go to a favored class of producers.

A plan to place an embargo or a prohibitive tariff upon the shipment of grains into this country has been discussed seriously as a means to lift prices. It is doubtful whether this particular plan would work as expected. The market for wheat is a world market. Canadian wheat, prohibited entry into the United States, in the normal course of trade, would quickly flow to other countries. Necessity would compel Canadians to underbid us, forcing our wheat out of foreign markets to the same extent as theirs had been forced out of our market. With a larger supply of American wheat at home, prices would not be raised at all. Meanwhile there would be the possibility of harmful reprisals. The decline of wheat has been so drastic that a recovery through natural causes would not be surprising, but if it came with the prohibitive tariff in effect, it would be certain to be ascribed to that.

The Tariff and Exports

THE whole question of a higher tariff is one which, at this time, should be entered upon with the greatest thought and care. It is premature to fear that Europe will "flood" us with her goods, when, in the ten months ending October of this year, Europe sent us only $1,078,000,000 of goods to offset the $3,721,000,000 of goods we sent to Europe. The outside world, principally Europe, owes a net debt to us of some $15,000,000,000, which, for interest alone—when that is fully established—will call for payment of roundly $750,000,000 a year. Unless we are to extend the volume of our foreign loans (taking no repayment on the old) for the next few years, our total purchases of goods and services from abroad must exceed our total sales by that amount.

It cannot be too often repeated that the ultimate means of payment for exports must be in imports. If we wish to maintain our export trade, our problem now is not how to put obstacles in the way of imports, but how to encourage them. By just as much as we succeed in cutting off our imports, we must, in the long run, cut off our exports.

This is a fact not often grasped even by exporters, because, though it works surely, it works indirectly. When a higher duty is placed upon a particular import, it can be directly appreciated how much the supply of that import has been cut off. To a corresponding amount, in value, exports as a whole will be cut off; but no particular exporter will be able to know just how much his particular commodity has suffered. A general falling off in sales abroad, coming as the effect of such a policy, would probably be attributed to a falling off in foreign purchasing power, or to our inability to meet foreign competition as before.

This does not mean that the tariff is without merit as a revenue measure, or that we may not with advantage impose higher protective duties on certain articles. A number of our young industries might with profit be protected during the next few years, to give an opportunity to prove whether they can eventually compete on equal terms with foreign producers. But the last thing we can afford to do is to attempt with a rough hand to keep out foreign goods generally. That would be a direct blow at every exporter and every consumer in the country. The tariff was undoubtedly useful when we were still a debtor nation. It helped to make us more of an industrial nation and less of an agricultural one. It helped to diversify our output, and strengthened us as an integral and self-contained nation. But we have now reached a new stage of industrial development. We are now the world's foremost creditor nation. Our exports are far outrunning our imports. The new tariff should be framed to meet the new conditions.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, February, 1921.

THE first definite signs of business revival are beginning to appear. Stock market prices have been rising; the prices of great agricultural staples have recovered from their lowest levels of a few weeks ago; conditions in the money markets are less stringent; foreign exchange rates have recovered sharply; textile mills which had closed or been inactive are slowly resuming work.

These signs forecast revival; they do not mean that it is actually here. Stock market movements usually precede actual industrial conditions by several months. The decline in security values which foreshadowed the present depression continued almost without interruption throughout 1920, and actually began in November, 1919. Money is not yet definitely easier; and just as recent high rates in the money market continued for some months before affecting business, so lower rates, if they come, are likely to be in effect for a time before renewed borrowing and expansion are sufficiently encouraged. The rise in the pound sterling in two months from $3.32 to $3.89, and the recovery in exchange generally, should prove a decided aid to our export sales, particularly as the decline in commodity price levels has been even greater in this country in recent months than in Europe. But neither is this likely to make itself felt immediately. The astonishingly large export figures in the last months of 1920, in view or world conditions, are probably to be explained, at least in part, by the fact that goods going forward represented the filling of orders placed some time previously. Finally, the mills now resuming operations are mainly in the lines which were first to suffer by the present slump, while in trades which did not begin to be affected until recently, further declines in prices or activity are widely looked for.

Facing the Facts

NOT until the readjustment is completed will a real recovery set in. The chief obstacle to this completion is human stubbornness, ungrounded hope, unwillingness to look the facts in the face, reluctance of individuals to assume their inevitable share of the national loss. This is now a prevailing attitude among retailers, wage-earners and producers, and until all classes are willing to acknowledge the changed conditions, revival will be delayed.

By refusing to lower their prices to correspond with wholesale declines, retailers dam up the flow of goods. Their policy gives an air of justice to the demands of wage earners, who contend that they cannot accept wage reductions until the cost of living has come down; and while wholesale prices, according to Bradstreet's index number, fell during the last half of 1920 by 36 per cent, the calculations of the National Industrial Conference Board and of the Department of Labor show that the cost of living as it actually affected the average working family fell only 11 to 15 per cent. But labor cannot hope to wait until all retail prices have been reduced before accepting corresponding wage reductions. Nothing can be accomplished if each class insists that it shall not take losses until other classes have taken their losses first. If buyers refuse to take the goods of a factory above a given price, the factory must either reduce wages to the point that will enable it to produce the goods at that price and keep going, or it must close down. Unfortunately, suspicion and stubbornness on the part of workers make it almost impossible for a manufacturer to reduce wages sharply while the factory is going full time; it is not until it has been compelled to close, and the men have been out of employment, that work can be resumed on a lower wage basis. If it were not for this, unemployment in this country would not now have reached anything near the present total of 3,000,000 estimated by the Department of Labor. The textile mills that have reopened have done so at substantial wage declines.

Effect of Holding Back Goods

PRODUCERS manifest the same effort to escape any loss for their own special group and to shift it upon the whole community. The signed pledges to hold back wheat from the market are one evidence of this. Another is the attempted agreement of tobacco dealers not to grow any crop whatever next year. The wisdom of some of these agreements, from a purely selfish view, is dubious. If America were the sole producer of wheat, it is conceivable that an agreement among all our farmers to hold back their grain would raise the price. But an advance in the quotation of a commodity is of no use to the holder of it until he sells. Even under the condition supposed, such a policy would not be successful, for when farmers finally released their wheat for the market, prices would probably be sent down more than if a normal, orderly selling process had been followed. As America is not the sole producer of wheat, but must compete in the world market with Canada, Australia and the Argentine, the effects of a withholding policy by American farmers might be even more serious. It has been estimated that 75 per cent of last year's crop has already left farmers' hands; but when farmers enter any agreement to hold back the balance of their grain, they obligingly help temporarily to reduce the world surplus, and this enables the farmers of other countries to obtain a higher price than otherwise. Our farmers might find upon releasing their own grain that the most pressing demands had already been met, and their supply would go at a much lower price.

The farmer should be free to choose, as an individual, what he regards as the most profitable time to sell his own crop, but this does not mean that he should pledge himself to any attempted monopolistic combination. The effect upon the community of arbitrarily withholding or cutting down supplies may be realized if it is considered what would happen were such schemes universally followed. If the cattle raisers agreed among themselves to contract the supply of cattle, the cotton growers to curtail the cotton crop, the wheat farmers to plant less wheat, the coal operators to mine less coal, and so on around the circle, each with the intention of increasing the price of their commodity, they would doubtless be successful in their object; but it would be of no advantage to any of them, for the increased profits received by the persons in any line would be all absorbed in the increased prices they would have to pay for every other article. In fact, everyone would have fewer physical goods and comforts than before, because the producers would have cut down production all around.

The increase in specialization consequent upon modern economic development tends to make all classes of the community more and more interdependent. It is true that the community depends vitally upon the wheat farmer, for instance, but the wheat farmer should not forget his own dependence upon the railroads, and upon the purchasing power of the consuming public, which, in turn, rests upon full employment and general prosperity. Increasing economic interdependence makes more and more necessary not only increasing general knowledge of economic principles, but a greater spirit of public service and the abandonment of selfish group interests.

The Money Market

FALLING prices of commodities, liquidation of goods that had long been carried, the end of the season of highest demands for financing the crop movement, and the passing of the Christmas and year-end requirements for credit, have combined to lessen the strain upon the money market. Conditions are reflected in the bank statements. Loans of the New York Clearing House Banks have dropped $340,000,000 in the last three months. The reserve ratio of the Federal Reserve System of 48.5 per cent on January 22, was the highest since October, 1919. Commercial rediscounts were the smallest since last September, and the item of bills bought in the open market was the lowest in more than three years. Federal Reserve notes outstanding had fallen $289,000,000 from their highest point at the end of last year, and are now at the lowest figure since August 6. This return of Federal Reserve notes from circulation, the largest consecutive reduction in the history of the Federal Reserve System, is evidence that the System really has provided an elastic currency, that can contract as well as expand.

The Rediscount Rate

THESE lessened demands on the banking resources have found reflection since the beginning of the year in slight declines in rates for call and time loans on Stock Exchange collateral (though with a recovery later), and fractional recessions in the rates for commercial paper and bank acceptances. In some quarters an early reduction in the Federal Reserve rediscount rate of 7 per cent has been looked for. Whether and at just what time this will take place will depend not only upon conditions in the money market, but upon the policy adopted by the Federal Reserve Board and by the local Federal Reserve authorities. In this connection a remark made by the Governor of the Board in an address last September is significant: "When our banking system reaches the point where it can function normally the Federal Reserve discount rates ought always to be somewhat higher than the current market rates." This is the traditional policy of the Bank of England's discount rate. It is based on the theory that member banks should have extensive recourse to a central bank of rediscount only in times of emergency or in times of seasonal strain, and not in the course of normal business. Owing to war conditions, rediscount rates in this country have been below open market rates practically since the beginning of the Federal Reserve System. If that policy were now reversed, by the simple method of keeping the rediscount rate up when market rates decline, it would have several important results. For one thing, it would prevent any appreciable immediate decline in rates. If the commercial demand for loans should fall, and the open market rates should go below 7 per cent, member banks would pay off their own borrowings at the Federal Reserve before striving actively to increase their loans in the open market. Such a repayment should result in a material strengthening of the Federal Reserves position, and we would not unlikely see during the next few months a continued increase in the reserve ratio.

It is interesting to notice from the ratios of the individual reserve banks that the liquidation in the industrial districts has proceeded more rapidly than in the farming centers. The highest ratios on January 22, 66.9 per cent, 64.4 per cent and 61.3 per cent, were at the Cleveland, Boston and Philadelphia reserve banks, while the lowest, 39.5 per cent, 39.8 per cent, and 40.8 were in the wheat and cotton sections, Minneapolis, Dallas and Kansas City. The one apparent exception to this contrast was New York, with 38.1 per cent, but that was in large part because the member banks in this city have been lending heavily to their correspondent banks in the agricultural territories, and have had to borrow from the reserve bank in turn.

Barring the unforeseen, the present less stringent conditions in the money markets should remain for the next few months. Liquidation will probably be slow. An uncertain influence will be the financing of our foreign trade. Although a fall in exports has been looked for for some time, our excess of exports during December was valued at $454,000,000, the highest for any month in 1920, and practically all of this amount must have been financed directly or indirectly by bank credit. The new influx of long-time foreign loans now under negotiation, however, and the greatly increased volume of these that is likely to come when the $100,000,000 Foreign Trade Financing Corporation begins to operate, should put our foreign trade upon a sounder footing.

Restricting Grain Speculation

THE violent fall in the prices of foodstuffs has led to sudden opposition from the agricultural sections to trading on the grain exchanges, and to a group of radical bills now before Congress seeking to eliminate trading in "futures" through a prohibitive tax, and to confine all grain speculation to persons actually in the trade.

What this antagonism and the resulting legislative proposals overlook is that, except for the less important movements of prices over short periods, speculation does not *cause* the great swings of prices, it merely *records* them. To seek to restore prices to their former levels by restricting speculation and eliminating future trading is somewhat comparable to attempting to break a cold wave by smashing the thermometer, or trying to catch a train by turning back one's watch. In general, a speculator is successful and enriches himself not in so far as he tries to make prices, but in so far as he is correct in guessing what prices will be. He may buy and bid prices up, but unless he can find persons willing to take the grain off his hands at the higher price, he has accomplished nothing. He may sell short and depress prices, but unless other people have sold, and agree that the price should be lower, he will only bid prices back to their original levels when he is forced to buy back. If the ultimate demand is greater than the short seller believes, he is liable to suffer very heavy losses. As short sellers form a group of persons who have no choice but to buy back, their purchases, in times of panic, when no one seems willing to buy at any price, act as a cushion in sustaining the market.

Organized speculation checks the most violent extremes in fluctuations. Wheat in London, before the days of boards of trade, fell from the equivalent of $2.50 a bushel in 1335 to the equivalent of 20 cents a bushel in 1336. As for speculation causing low prices, it may be recalled that it was when the cotton exchanges were closed, in 1914, that cotton went to its low price of 5¾ cents a pound, and it was last year, with the exchanges open, that it reached 43¾ cents a pound.

The Function of Hedging

ONE effect of confining grain speculation to persons in the trade is that the market would be made so narrow as seriously to interfere with "hedging" operations by millers and others in the trade, while the prohibitive tax proposed on future trading would virtually eliminate this.

Hedging is not speculation; it is the avoidance of speculation. It is a form of insurance. Between the purchase of wheat by a miller and its milling into flour and sale upon the market, time must elapse. This interval may often be very long, for in order to assure himself of a supply of wheat, the miller may purchase at one time his requirements for a substantial period. During that time the price of both wheat and flour may decline so sharply as to wipe out his entire margin of profit and more. He can avoid this by selling on the exchanges contracts for future deliveries of wheat, and closing these out by purchases as his own holdings of wheat and flour are reduced. If there is a sharp decline in wheat, he will make as much on his future contract as he loses through a fall in the price of the flour he produces, leaving him the profit from his own business of milling. If these hedging facilities were taken from him, the miller would have to exact a much larger margin of profit in order to protect himself from market fluctuations; this would mean a higher price for consumers and probably a lower price for farmers. Moreover, banks lend liberally to millers because their grain holdings are hedged; if they were not, the banks, in their own interest and in that of their clients, would be compelled to reduce credit extensions to from one-half to one-quarter of their present volume; and the farmer, in consequence, would find himself without his present instantaneous market in wheat. The very great advantages of hedging, in fact, suggest that what is needed is not restriction, but expansion, and that its application to other commodities, where practicable, would be of no small value to trades which deal in those commodities.

In 1864 a law was passed prohibiting gold speculation, which was thought to be causing the decline in the "greenbacks," just as speculation is now blamed for the decline in cotton and foodstuffs. The law caused such a violent decline in the value of the greenbacks as measured in gold that it was repealed by Congress without a dissenting vote less than two weeks after its passage.

Undoubtedly speculation has its evils, but in view of its enormous service both to consumer and producer, these do not warrant hasty legislation. Mr. Julius H. Barnes, former United States Wheat Director, has suggested the creation of a National Marketing Commission, composed of experts, to investigate the facts fully, and to make recommendations back to the legislative bodies, but with authority to endeavor to secure by a voluntary co-operation of the trades themselves, those improvements which their inquiry leads them to believe to be desirable.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, March, 1921.

READJUSTMENT during the last month has followed the course generally expected and predicted by the best informed observers. Those commodities which had not previously been affected by the general decline in prices, or which had actually moved contrary to the general tide, are now beginning to decline. In the last few weeks have come price reductions in crude petroleum and gasoline, iron and steel, paper and coal. Reductions in wages of from 10 to 25 per cent continue to be announced from an ever-widening circle of industries.

These price and wage reductions may be looked upon by many as unfavorable factors. Really, from the point of view of the country as a whole, they are quite the reverse. Business cannot start again upon a new level until prices and wages generally have reached that level. The longer the readjustment of the wages and prices that have been out of line is deferred, the longer the revival is deferred.

The relation of the price of one article to the price of another is not determined by accident. When students of the situation assert that the price of coal is out of line with the price of cotton, they do not make this assertion simply because they have been accustomed to a different relation in the past. They mean that the ratios of the prices of coal and cotton, or of coffee and gasoline, or of all commodities together, must in the long run correspond with the ratios of their respective costs of production.

Special conditions of demand and supply in each industry may for short periods make prices depart from these ratios; but for just as long as they do, production will be unbalanced, and readjustment must continue. In those industries in which profits are too low, production will diminish, throwing men out of work; in those in which profits are abnormally high, production will tend to increase; but it will be a long period, involving a great deal of suffering to individuals, before the men thrown out of work in one industry are reabsorbed in another. What applies between different industries, applies between different stages of the same industry—between the respective profits earned by wholesalers and retailers, for example. It would be far better for the revival of industry if the present readjustment could be made by everyone simultaneously. Dragging it out can only put off the day of real revival.

The Railroad Situation

NOTHING could illustrate more strikingly the change that has come over business in the last year than the figures of idle cars. These amounted on February 8 to 357,373, the largest total in years. It compares with an actual shortage of approximately 150,000 a year ago. At that time, and many times during the war, the inadequacy of railroad equipment almost strangled production; it held back finished goods from their markets, and prevented factories and mills from receiving their coal supplies or raw materials. The present surplus is not the result of an increased number of cars. It is simply due to the falling off in railroad traffic. This falling off is owing partly to the decline in business, partly to the voluntary holding back of goods from market. But it may be asked whether it is not also partly the effect of freight rates that, under the changed conditions, may be too high, or more than the traffic can bear. Many railroad men themselves are now of this opinion. In order that rates may be lowered, and the railroads survive, expenses must be lowered. The greatest of these is wages.

In political circles the opinion persists that railroad rates and wages may be controlled in accordance with the ethical ideas of political regulators, irrespective of outside economic conditions. This assumption, avowed or tacit, is as harmful in times of falling prices as it is in times of rising prices. General readjustment cannot come without railroad readjustment. Neither railroad rates nor railroad wages can be treated as a thing apart.

The Money Market

THE worst of the strain upon the country's banking system has passed, and the statistical banking position continues to show steady improvement week by week. The percentage of reserve to the combined note and deposit liabilities of the Federal Reserve System, which, more than any other figure, gives an index to banking strength, has risen above 50 per cent. to the highest figure of nearly a year and a half. Total earning assets of the system have declined $600,000,000 since mid-October; Federal Reserve notes outstanding have fallen $360,000,000 since the last week of 1920. The flow of gold has lately been in the direction of this country. The loans of the New York Clearing House Banks are down $600,000,000 from their peak in October. It is significant that, up to the close of February not a single week since the beginning of the year has failed to show an increase in the Federal Reserve System's percentage, a diminution in Federal Reserve notes, and a decline in New York Clearing House bank loans.

It may seem strange, in view of this marked statistical improvement, that rates for money have been almost unchanged from their levels last fall and at the year-end. The reason is that the banks have been more cautious in granting new credits, for a large part of the loans at present outstanding are now found to be difficult to liquidate. The drastic collapse of prices has made many producers, especially in the cotton and wheat sections, reluctant to sell, and they have been holding back their goods, continuing to borrow on them, in the hope of higher prices. But in instances in which producers have been willing to sell, even at present quotations, the stagnation of buying has made it impossible for them to move their stocks with customary rapidity, and here it has been the manifest duty of the banks to carry along all borrowers of undoubted solvency whose assets are not deficient, but merely slow.

The German Indemnity

BY FAR the most important economic and political event since the beginning of the present year is the approval by the Allied premiers of a definite reparations plan. The plan provides that in forty-two years Germany shall pay to the Allies the sum of $56,500,000,000, in the following payments: $500,000,000 annually in the first two years, $750,000,000 annually in the next three years, $1,000,000,000 annually in the next three years, $1,250,000,000 annually in the next three years, and $1,500,000,000 annually in the next thirty-one years. In addition to this, Germany is to pay to the Allies for forty-two years a 12½ per cent tax on the sum total of her export trade.

It remains to be seen to what extent this program will be modified after the conference at London, but it is worth examining what it would mean if it became effective as it stands. The terms call for $56,500,000,000 in gold, not including the tax on exports, but this is not to be taken literally. What is meant is that amount in gold value, not in gold metal. It was obviously necessary to stipulate gold value, for otherwise Germany could pay in its own "stage" money, and the whole amount could be produced by the German printing presses. Payment in the physical gold, however, is out of the question. Nearly all of the monetary gold of Germany is now in the Reichsbank, and amounts, according to the latest weekly statement, to $275,000,000, or less than one-half of 1 per cent of the sum demanded. All the monetary gold in the world does not exceed $10,000,000,000, and all the other gold used in the arts is less than $10,000,000,000.

This is the reason for the frequent assertion that the German indemnity must be paid almost solely in goods. Even if German currency were worth its value in gold (and it could be so only if it were convertible on demand into that metal), it would be of no use to the Allies to take payment in it, for it would not circulate in their countries. And even if it did, it would be of no use to them; it would only add to the quantity of their engraved certificates; while the gold itself, if kept in the Allied countries, would only inflate the level of prices in those countries, without raising the standard of living. The sole real use of the money or the gold would be to buy goods from the outside world.

Payment in Gold

IT IS theoretically possible, indeed, that the Allies could be paid, or imagine themselves to be paid, entirely in physical gold. The only way in which Germany could command the gold would be by exporting goods in greater value than the goods she imported. The difference in value would be owing her in gold, and though the United States is now the only country of importance that pays gold upon demand, we will assume that Germany could obtain gold for her exports and pay it to the Allies. The initial amount would not approach the total, but the same gold could be used over and over again. Germany could again export more goods to the world, drawing gold for her excess exports, and then pay it to the Allies again. But this process would deceive no one. The Allies would not be keeping the gold; the only thing they would keep would be the German goods, and it would be useless to ship the gold continuously back and forth, when the modern device of foreign exchange bills obviates the necessity for this.

Effect on International Trade

MANY persons, however, who have seen that the ultimate payment of the indemnity must be almost solely in German goods, have drawn a false conclusion from this. They have spoken as if the Allies themselves would be compelled to accept these German goods. This does not follow. The indemnity will permit—and, in fact, compel—the Allies to take more goods from the outside world as a whole; but they need not necessarily take the goods from Germany. Part of Germany's excess exports, or all of them, could go to other than Allied countries, and the Allies could receive their own excess imports from those countries.

It cannot be said positively just how the indemnity payments will affect the total amount of the trade of those countries, in which we may include the United States, not immediately concerned in the indemnity payments. The payment will not directly affect the relation of our imports to our exports; for though it will probably result in our receiving a larger volume of goods from Germany than otherwise (assuming Germany's ability to pay the amount fixed), there will be an offset on the export side by the purchase of the Allies from us of a greater volume of goods than otherwise. Indirectly however, the indemnity payments may affect our trade very markedly, for they will affect the productive powers and the purchasing power both of Germany and of the Allies.

The criticism levelled against the so-called 12½ per cent "tax" on Germany's exports seems to be based on a misunderstanding of the terms. What is proposed is not an export duty; it is not a tax *upon* the exports, to be paid by the exporters, and consequently added to the price, but an amount to be determined *in proportion to* the total of the exports, and to be paid by the Government. The purpose of this is simply to satisfy the desire of the French to share in any increase in German prosperity during the period of the indemnity payments (though this is also provided for to some extent in the gradual increase of the annual fixed payments). Such an export percentage tax would not work in any direct way to discourage German exports. What it would do would be to increase greatly the total amount of the indemnity over the nominal set figure of $56,500,000,000. The really vital question in connection with the indemnity is whether or not the total of the export tax and the fixed payments would be too large.

Germany's Ability to Pay

THE installments, as we have seen, can only be paid out of the difference between Germany's exports and imports. Germany can create this difference in only two ways: by increasing exports or by decreasing imports. But for the mere maintenance of export trade itself, there is a limit below which imports cannot go. Many of Germany's staple goods, such as metal manufactures and textiles, cannot be produced unless the raw material, or a large part of it, has previously been imported.

In this connection there are some interesting calculations by J. M. Keynes. Mr. Keynes was a financial adviser to the British Treasury at the Paris peace conference, and came into prominence last year as the author of "The Economic Consequences of the Peace," a book which aroused wide discussion. He does not believe that it would be possible for Germany continuously, year after year, to maintain her exports at more than 40 per cent above her imports. German exports before the war came to about $2,500,000,000 annually, and the imports to slightly more. Under present gold prices the same volume of goods would amount to a higher figure.

Now in order that Germany's exports may exceed imports by $500,000,000 in the next two years, she will have to have, on the basis of Mr. Keynes' estimate, total exports of about $3,500,000,000, for 12½ per cent of this would be $437,500,000, making the total payment for the first year nearly $1,000,000,000, with imports at about $2,500,000,000. This is the figure for this year and next year. According to the last published figures Germany has at this time no export surplus, but an export deficit. The indemnity of $1,500,000,000 a year for thirty-one years, to begin in 1932, would mean at least $500,000,000 a year additional for the export tax, and on the preceding estimated percentage of exports to imports would mean $7,000,000,000 exports and $5,000,000,000 imports.

Is this possible? Mr. Keynes himself does not believe so, and in his picturesque language, "Lloyd George feels that he is making progress (perhaps he is) when he succeeds in persuading M. Briand to agree with him that 2 plus 2 does not make 12, but only 8; M. Briand hopes that, being eloquent, he may, after all, be able in the French Chamber to make a good enough song about 8 to defeat any argument from M. Poincarè as to how much better it would be for France if 2 plus 2 made 12."

Possibilities and Danger

WITHOUT endorsing Mr. Keynes' statements, and realizing that the exact amount of the indemnity can only be determined by experts who have made a special and thorough study of that subject, something may nevertheless be said about the principles upon which that indemnity should be based. The question is not primarily an ethical question. It is not a question of how much Germany deserves to pay. We may assume that amount to be unlimited. Nor, exactly, in the question how much Germany can be made to pay. The question is, how much is it wise to compel Germany to pay? That is, how much is it wise, considered purely from the viewpoint of the Allies own best interests, to demand? Is there a possibility, that while Germany is developing her economic muscles to provide for the Allies, as well as for herself, the Allies, letting Germany do part of their work, will become economically soft, finding Germany their economic superior at the end of the indemnity period? Or will the Allies produce as much as Germany, but merely live better during the time that payments are being made? Is there danger of making the amount so large that Germany will be ruined as a customer for the goods that the Allies have to sell? Is there danger of making it so large that it will take the hope out of the hearts of the Germans, so that the amount will never be produced and therefore can never be collected? Is there danger of making the burden so heavy that Germany will never be politically stable under it, and that anarchy or Bolshevism shall be continually threatening, or shall actually come to pass? Is there danger in fixing an indemnity that shall encourage, indeed compel, Germany to flood the Allies' markets with her goods, or what may come to the same thing, to flood other markets with her goods, so that the foreign trade of the Allies will be injured or crippled by the competition? These are some of the conflicting questions that the men who are fixing the indemnity figure must ask themselves. The reparations settlement should look not to the past, but to the future.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, April, 1921.

AMERICA'S material interests are governed by so many conflicting circumstances that it is not possible at the moment to determine just how far progress is being made in the direction in which we believe "normal" lies. Every new day presents a new aspect to one or another of the commercial and economic problems with which men are wrestling, and every new day finds business sentiment swung backward or forward according to the immediate construction that is placed upon the significance of passing events. On one day lately the newspapers printed an interview with a very well known western bank president, in which industrial conditions were pictured as being as critical as at any period since the reconstruction days following the Civil War; the same newspapers the following day printed an interview with the president of one of the country's leading industrial corporations in which the situation was presented in distinctly favorable colors, with a very definite prediction of active trade in the near future.

Generally speaking, business sentiment shows an improvement over the earlier months of the year, and in a number of directions tangible improvement in operations is shown, in spite of difficulties. Difficulties confront the United States at this time, but serious as they are, they shrink in importance when compared with the difficulties of other countries of the world. Relatively, we are an exceedingly favored people, who have gone through a period of such severity that, had we not been granted inherent financial strength, capable business leadership, and a banking and credit mechanism that functioned with remarkable precision, we would have suffered severe consequences.

Deflation has of course been painful; but it has been orderly, and up to the present has carried us a very long way from the exaggerated and fictitious prosperity of last year toward real stability. How much further it is to proceed in the immediate future is still to be determined. The current movement of prices is not a criterion on which we can safely count; having suffered an extreme decline in certain commodities, prices are being arbitrarily maintained in certain other commodities—notably steel—and the broad indication of price movements is, therefore, partly concealed.

International Relationships

IT IS impressed upon us more and more, as time goes on, how definite and important is the stake the United States has in what is going on outside its borders. Of our so-called "problems," which make the head of the average man who seeks to read the future ache and swim, practically all have an international significance. There is no one big enough to solve the problems that are before us, but it is important that all of us keep the chief of these problems before our attention, for they directly affect our future, together with the future of other countries. Those which have a direct bearing on our international affairs are, briefly:

Need for establishment of new relations in our international affairs.
Impending peace with Germany.
Dislocation of the foreign exchanges.
Rapidly falling export trade.
Greatly diminished imports.
Need for the extension of long-term commercial credits to foreign buyers of our products.
Tariff revision.
Immigration control.

All of these problems have a very direct bearing upon our own prosperity and are so interwoven with our purely domestic problems that they have clear and unmistakable bearing upon our labor situation, our transportation situation, our tax situation and our money market.

Importance of New Congress

OF LARGE importance in view of all this is the complete alteration that has occurred in the administration of the United States and in the drastic change that has been promised in the attitude of the Government toward world affairs. Action by the new Congress that assembles on April 11th will unquestionably result in a number of important movements that will have a direct bearing on business. Chief among these, next after the establishing of new political relations with other countries, will be tax revision and tariff revision. As promised, tax revision will have almost the united support of both Houses of Congress, but tariff revision will require time and patience because leaders of American business are not at all in agreement on this subject.

At a time when foreign markets are slowly but certainly closing to American products because of the inability of customers to pay cash for our goods, and when careful thinkers are urging that American markets be opened to foreign goods in order that people may sell here and thus establish a sound trading basis, we are threatened with duties on foreign products designed to keep them out of our markets. The inconsistency should be plain to all of us. It is to be expected, of course, that industries which were built up during the war, and require protection, will have sufficient influence to establish tariffs on a higher basis than those of the present, but speaking generally, a wholesale revision of our tariff laws in a way to jeopardize the future of our import trade, at a time when it is imperative for foreign people to sell extensively if they are to go on buying extensively, is to be deplored.

American statesmanship during the next six months will very largely determine the trend of American business for years to come. It is not a matter for statesmanship in Washington alone; as we go along, step by step, it rests very largely with the intellect and energy of American men of business to supply a constructive statesmanship that will lead this country and others toward firm ground. The spirit of international tolerance and helpfulness was manifested to an extreme degree during the war; it has been more or less in eclipse since that time, but it is being borne upon our consciousness that we are closely linked with people abroad, and that even if our moral obligations are not strong in themselves, our commercial opportunities prompt us to constructive action.

Outlook in Money Market

EASIER money conditions have been talked of lately, but indications of a declining tendency of rates have not been pronounced. The position of the Federal Reserve Banks has shown progressive improvement, and the fact that the Treasury has been enabled to borrow on its treasury certificates in the open market at less than 6% is hailed as an indication of returning ease. Money conditions are improved, the shrinkage in the volume of the country's business having lessened the urgency of the demands for funds. However, the banks are still heavy borrowers from the Federal Reserve System, and loans for some time to come will be beyond the point at which the banks can comfortably meet the situation without themselves borrowing from the Federal Reserve. Corporations and firms whose paper heretofore found ready sale through commercial paper brokers now find that market practically closed as a source of supply for their needs. Indeed, in many cases recourse is had to their bankers for increased lines to meet maturities from the open market.

Continued heavy re-discounts by the commercial banks in nearly every part of the country is the only explanation that is to be offered for the extreme caution which the Federal Reserve Board still exercises in guarding carefully the gold that is held in its reserves. It will be interesting to watch the movement of reserve ratios of the Federal Reserve Banks during the coming weeks; there is developing a theory that rather than permit the percentages to rise to a figure which might impel a lowering of re-discount rates, the Board will prefer to release gold for general circulation throughout the country, thus keeping reserve ratios down and avoiding the pressure that a high reserve would bring from every part of the country for reduced re-discount rates.

International Trade

PRODUCERS of foodstuffs and other raw materials, together with manufacturers in every part of the country, continue to suffer from the partial paralysis that has overtaken the country's export trade. Through the inability of foreign buyers to pay cash for our goods, and through the inability and undesirability of our banking system to provide long-time credits, exports have fallen severely, and the consequent embarrassment is more pronounced than it has been at any time before.

From a practical viewpoint, the importance of the subject arises not only from the fact of declining exports, but also from the fact that foreign shipments are continuing on a basis of finance which is essentially undesirable, if not unsound. The United States is in need of a mechanism which will take from the commercial banks the burden of supplying foreign credits which are in effect, if not in form, long-term commitments. Were the machinery now in operation which the proposed Foreign Trade Financing Corporation intends to set up, it would assist materially in establishing a sound basis for the entire country's export trade. Of course, we must not at any time lose sight of the fact that any financial machinery, however well planned, cannot indefinitely carry an export balance of the proportions now ruling. Imports from abroad must be stimulated; we must buy more if we are to sell effectively. The outside world can attain a position of a good credit risk only if it gets on a better footing as regards productive efficiency.

Suggested Remedies for Trade Deadlock

THE utterly abnormal condition that exists in international commerce has lately brought forth with increasing emphasis a suggestion that in the period immediately before us the opportunity should be developed to trade, wherever possible, on the primitive basis of barter. Practical men of affairs whose export orders have collapsed from the peak of last year, and whose foreign customers cannot any longer be adequately financed under existing terms of credit, have seriously urged that the suggestion to develop a system of barter be recognized, and that means be supplied for exchanging American products that are needed abroad for foreign products that are needed here.

In this country, granaries are laden with wheat and warehouses are stocked with wool, cotton and other raw materials. Under existing circumstances, it is useless to suggest that needy people pay for these with cash. The American dollar is at an unparalleled premium in nearly every country of the world, the premium ranging all the way from 20 per cent to 1000 per cent. Commenting on this situation an observer of long business experience said lately:

> "Money—instead of being an aid to trade—has become a barrier. Something must be done to eliminate this barrier. Even with confidence in one another re-established and an assurance that we should ultimately get paid for our goods, some plan must be devised to set the machinery of exchange in motion. This will be obtained through a partial return to the old system of barter. The raw materials of this country will be exchanged for goods abroad without reference to marks, francs or dollars. Where goods cannot be given us, we shall exchange our raw materials for their labor and divide the manufactured products."

With the necessary supplies of gold unavailable, and with the machinery of international credit incapable of contributing adequately toward the general distribution of the world's commodities, it is little wonder that men are saying that it might be better to return to primitive systems than to lock the doors of the warehouses which contain the world's raw materials, food and manufactures, while people are idle for want of raw materials to work with, and ragged and hungry for lack of the very necessities of life.

Needs of the Situation

IT IS properly said that the world cannot sit helpless because the machinery of its own civilization has ceased properly to function. If the world's commerce is to go on and expand, distribution must be restored. People anxious to work must be freed from obstructions imposed by their temporary liability to pay for raw materials, and nations surfeited with raw materials must likewise be freed from the obstructions that prevent them from selling those materials to countries which need them.

Thus it comes to be suggested that the delicate system of international exchange that required more than a century to put together to facilitate trade be discarded and that barter take its place. It would seem, after all, that the human family, in spite of the complicated appliances that civilization has built up for its progress, has not got so very far away from its primitive habits. It is instinctive to barter; a boy will "swap" a top for a knife, a knife for an apple, an apple for a kite. It is precisely this example that is now suggested for the promotion of international trade.

But turning back the clock of time and conducting twentieth century affairs in the manner of the tenth century hardly would maintain America's export and import trade in a volume sufficient to promote the welfare and prosperity of the millions of our producers.

The Standard of Value

PURE barter in our existing economic scheme of things, without any standard to gauge values, is out of the question; were it to be attempted business would rapidly fall into chaos. Every modern business man must of necessity measure the value not only of what he produces but of what he takes in exchange for his product, and in order to have anything like stability he must measure every transaction upon which he enters in terms of gold value rather than in terms of exchangeable value of goods. The value of gold being stable, goods fluctuate in terms of gold, and thus, while it is possible by barter to exchange one article for another, gold supplies the single definite measure of all relative values. Gold is a convenience, but it is a convenience definitely fixed in men's minds by the custom of centuries, and our whole economic system is based upon that custom.

True enough, a certain amount of barter has gone on for some time in our foreign trade. American exporters have shipped goods into foreign countries, and instead of cash have taken goods produced in those countries, bringing them back to the United States for sale. For example, a manufacturer of typewriters is reported to have taken in return for his products a quantity of eggs and bristles. A manufacturer of American locomotives is said to have taken oil. A manufacturer of electrical equipment is said to have taken silks and pottery.

All this shows that outright barter in a limited degree is possible, but the very instances in question indicate the hazards involved—hazards, indeed, that American business men in general would refuse for a moment to consider. Practically, barter between the United States and other countries could be carried on in a small way if the raw materials or manufactures of this country were exchanged for the manufactures of raw materials of another country. It might be successful if our raw materials were shipped to another country, there to be worked into manufactured goods of which part would be retained by the manufacturing country in payment for its labor, and the remainder sent hither as our share of the profit on the transaction. To be successful, however, barter would require either that it be undertaken at first by people of sufficient resources to enable the initial expenditure while waiting for a return on their capital, or by a liberal extension of credit.

Thus it is seen that the system of long-term credit made possible by the terms of the Edge Act might be supplemented to a limited degree, as time goes on, by a system of supplying raw materials to countries like France, Italy, Germany and Austria, whence they might be returned in manufactured form, to the mutual advantage of all concerned.

The World's Chief Problem

STILL, when we consider the world's trade difficulties as a whole, we cannot avoid the conclusion that they are the result not of inadequate exchange facilities, but of faulty distribution. One part of the world has too little for its welfare; another part has too much. No system of barter can remedy this. Broadly speaking, what is needed is a scientific system of merchandising and credit. The American people have built up a tremendous capacity for production and must find a means of distributing their surplus products in order not only that their own welfare may be promoted, but in order that their own prosperity may continue.

A carefully formulated system of credit which will distribute the surplus products of America to markets elsewhere is a far more practical solution of the problem of distribution than any other single thing. If this credit is granted for a sufficiently long time the prosperity of needy people abroad can and will be re-established, and repayment will be made. On the other hand, if this credit is withheld the whole standard of civilization among needy people will be lowered to a point dictated by their economic circumstances. As for ourselves, if, through circumstances like these, the civilization of the four hundred million people of Europe is dragged downward, we could not escape the result without much suffering.

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OF THE CITY OF NEW YORK

New York, May, 1921.

OUTSTANDING among the features of the present economic situation is the flow of gold into the United States. In spite of an already unprecedented accumulation, the metal is coming here from abroad in a wide stream, more than $60,000,000 having been added to our monetary supply through imports since April 1, and more than $200,000,000 having been added since the opening of the year. In all of 1920 the gain in our gold reserves by imports was less than half what it has been in the past four months.

Since the opening of the year twenty-six countries have contributed to the golden flood coming here. The new metal has built up the position of the Federal Reserve System, but to date has not altered materially the terms quoted for credit in the money markets. Commercial money rates are not noticeably easier, generally speaking, nor is a lowering in the local rediscount rate looked for in the immediate future. The whole position of the banking community is against inflationary tendencies, hence loans are still carefully scrutinized and an orderly liquidation of old accounts is still in progress.

Paradoxical as it may seem to those who see in the present inward flow of gold a powerful influence toward relieving them from the present level of money rates, it is not a good thing that so much gold should now be coming hither from abroad. It does not help matters; on the contrary, America having become the gold pivot of the world, it would be far better were gold going out to the countries where it is most needed, rather than coming from them. Gold accumulation abroad would strengthen currency systems and reestablish credit, and would thus contribute to restoring equilibrium and stability to the international exchanges. Gold accumulations here, on the other hand, in their present rapid pace, simply contribute new elements toward a renewal of inflation, and, by just the degree in which they do that, stand in the way of restoring equilibrium and stability to the international exchanges.

If, therefore, gold imports continue unchecked, the ultimate disturbing effect on our domestic banking position and on the international exchanges will have to be very seriously considered. It is one of the strange phenomena of a perplexing situation in world economics that gold should now be leaving those markets where it is most needed for the markets where it is not needed at all; the movement is a striking commentary on our position as a combined exporting and creditor nation. "It is lamentable," said a recent observer regarding this, "that the United States should be in such a position where its debtors are forced to part with the little gold they still have in their depleted stores, and the creditor nation is unable to refuse acceptance. If the gold standard is ever to be rehabilitated, it will have to have as a prerequisite a far more even distribution of specie reserves than has heretofore obtained."

Meaning of Gold Imports

HOW this even distribution is to be effected is yet to be determined. Despite the curtailment that has occurred in our foreign trade, merchandise exports from the United States continue to exceed imports. Without the extension of long-term credits abroad to take the place of the liquid credits used in what was the normal way before the war destroyed a considerable part of the basis for liquid credits, gold is bound to come here in return for our exported goods, inasmuch as the sole means of payment for those goods, beyond credit and goods produced abroad and sent here, is gold. Until it is determined, then, that American credit will stand behind and support American exports, it is inevitable, unless those merchandise exports fall even further than they have already fallen, that specie payments will continue.

At every angle the factors controlling the domestic situation touch those controlling the situation abroad, and it is repeatedly emphasized to us that the immediate future of our prosperity depends very largely upon the finding of a reasonable solution for Europe's difficulties. This applies politically as well as economically; the stand taken by President Harding and Secretary of State Hughes with respect to Germany and Russia augurs well for favorable developments in the settling of Germany's indemnity and reparation, and in the return of Russia to sanity and order. If a reasonable settlement of the problems pressing so hard upon Europe should presently be brought about, and if the means are provided for adjusting international credit matters, the stimulating effect would be pronounced, and in the revival (as the country where the goods are produced of which people abroad are in urgent need), the United States would take a leading part.

Commodities in Large Supply

THERE is in the United States an abundance of unsold cotton, copper, wool, leather and other materials for which in other countries there is an eager demand. Our domestic requirements are far short of output; hence it seems destined that farms, mines, mills and warehouses on this side of the Atlantic will continue crowded with surplus goods, until people in other lands are enabled to secure those goods and satisfy their wants—unless, of course, production is to be cut so far that the surplus is gradually absorbed here.

It can be judged therefore what an important bearing the adjustment of credit matters in Germany, France, Great Britain, Italy and the other countries affected by the indemnity settlement will have upon the outward trade movement from American seaports, and, further, what an important bearing upon that same outward trade movement the return of Russia to the international trade of the world will have. With a definite knowledge of what obligations are due from, and owing to, one another, the credit standing of the people of the various nations will be definitely fixed, and goods can then be sold on a basis of deferred payments without the question constantly being asked respecting the relative ability of our customers to repay what we advance to them. Out of our financial strength, if it is properly coordinated, we will be in a position to make credit available for other countries, according to their ability to repay, in order that they may buy our goods and once more start the wheels of commerce.

Railroad Rates and Wages

A FACTOR that looms prominently among the deterrents in our return to stability, more so than at any time before, is the cost of railroad transportation. Commerce, like life-blood, must have arteries to conduct its flow, and if health is to be maintained those arteries must not call attention to themselves chiefly through their shortcomings. For some time the arteries of our domestic commerce have been growing increasingly burdensome, and the inability of shippers to meet the high rates required by the carriers has at least contributed to the shrinkage in traffic that has sent 500,000 freight cars, empty, to sidings.

Even when business throughout the United States was good, buying liberal, and prices high, a year ago, transportation costs absorbed a large part of the country's business profits; today, with business curtailed and prices down, transportation costs have in some instances assumed so prohibitive a relationship to other costs as actually to forbid the shipment of goods. Speaking before the American Farm Bureau Federation at Washington a fortnight ago, Herbert Hoover declared that the whole railroad rate structure needed consideration as to its bearing on our future national life, and continued:

"Unless we can look forward to some drop in rates, we shall rewrite the whole industrial geography of the United States. Railroad rates bear an intricate relationship to our national prosperity, and unless they are lowered quickly there will be a decided shifting of agricultural industry."

High Cost of Conveyance

THE rate on a bushel of grain is 30 cents from Missouri to New York, as against 10 cents from Argentina to New York, a condition that would, if continued, according to Mr. Hoover, "change the granary base from the Central States of the West to foreign shores." Illustrations from the manufacturing industries as well as from agriculture might be cited to show the baneful effect of high rates, and multiplied many times. Railroad rates at their present level constitute not only a great obstacle to normal business, but, as Mr. Hoover has pointed out, threaten a relocation of the country's industrial geography.

The situation presents a disturbing picture, and, unfortunately, relief is not promised by any warm co-operative effect between the railroads and their employees. Both sides apparently agree that a drop in railroad rates is necessary, but both sides differ as to the means for bringing the drop about. On the side of the operators it is held that the first step must be a reduction in railroad running expenses that involves increasing the efficiency of the individual workman and cutting the rate of his pay. On the side of the workmen it is held that the first step involves a greater application of operating skill, an elimination of operating waste, and a replacing of "managerial inefficiency" with capable control.

Payrolls and Waste

HOWEVER justified may be the criticisms of the railroad labor unions that those in charge of running the country's railroads are responsible for the present burden of transportation costs—they have submitted specifications and explanations for what they charge to be a rail waste of a billion dollars a year—there is no gainsaying the bulky contribution that wages have come to supply to that burden. Railroad payrolls have been increased two billion dollars through the wage advances of the last three years; 60 cents of the railroad dollar now goes into the pocket of the employee, the remaining 40 cents going principally for coal, lumber and steel. Wages have made such a hole in the earnings of the carriers that the advance in transportation rates granted by the Interstate Commerce Commission last year, simultaneous with the increase in wages then allowed by the Railroad Labor Board, failed utterly to carry the railroads out of the mire of their expenses.

All through the country there has been a widespread lowering of wages of from 10 to 30 per cent., and the cost of commodities has fallen in various parts of the country of from 15 to 50 per cent. If there was justification for advancing wages and rates last year, there is the same justification for lowering them now; and were railroad costs immediately responsive, like other costs, to the law of supply and demand, both wages and rates would today be below their existing level.

But both are subject to arbitary control. The Railroad Labor Board has been sitting in Chicago for some time considering the question of wages, and action by that Board would seem to be indispensable if the railroads are to respond to the call that has been made upon them to lower their rates.

Rates and Business Revival

FUNDAMENTALLY, the position taken by the railroads regarding the necessity to reduce wages is based on sound reasoning, and despite the strong opposition encountered from the labor organizations, popular sentiment is on their side. This is particularly true in view of the effect that the state of the railroads' finances has had on their securities. There are billions of dollars of railroad bonds held by private investors in the United States, and further billions are held by the savings banks; the danger to these investments through further depreciation of railroad credit is being seriously considered.

If the railroads are to prosper, and are to be placed on a self-supporting basis, relief from burdensome expenses will have to be granted them. It behooves the railroad managers to effect every economy that is in their power and to eliminate every waste in order that the most capable transportation may be furnished in the interest of the country's economic welfare. But, also, it behooves railroad workers to recognize conditions as they exist, and not stand in the way of enabling the railroads to lower their rates to a reasonable level. Or else at best better times will come slowly, while at worst railroad investments will be further jeopardized, and the fears of a rewriting of our whole industrial geography, as expressed by Mr. Hoover, will be realized.

How Restraint will be Relieved

AS essential to American prosperity as any other single thing is adequate transportation at a fair price, and it is only reasonable to say that this will not be assured for the future unless a broad view is taken by those directly involved. The railroads are seriously handicapped today, and will continue to be handicapped until large drafts are made upon the capital of the country to restore their efficiency. So long as wages remain unduly high, freight rates must also remain unduly high in order that the carriers may continue to operate at all. Granted a reduction in running expenses, the railroads will be able to present to the industry of the country a far more efficient and reasonable service than has been the case since the war, and will be able to again attract the investment capital of the country to the end that they may keep pace with expanding opportunities.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, June, 1921.

WERE these ordinary times, and could we consider American business and finance without reference to the rest of the world, we might be justified in looking forward, in the months immediately before us, to a period of definite improvement, with business in a vigorous, up-looking state. The financial situation is more stable than it was during the winter months, and a gold reserve of 72 per cent against notes, as compared with 47 per cent at this time last year, measures the betterment in the status of the Federal Reserve system. With business generally, as with credit, mal-adjustment has given way to a sweeping readjustment, and the liquidation of merchandise having run a rapid course, wholesale commodity prices have steadied themselves at a level so decidedly reduced as to indicate a wiping out of much of the unsound inflation of the past.

Under ordinary conditions, an improving credit situation and reduced commodity prices would be regarded as distinctly hopeful indications. So also would other signs that are seen today. For example, the fever of speculation that dominated affairs in 1919 and 1920 having subsided, business men generally are content with smaller profits, while lax methods of trade are disappearing and commercial sanity is being restored. Having learned that he must work if he is to prosper, the average man is showing greater efficiency, and is producing more for lower wages. The government is openly seeking to improve its relations with business, acknowledging and professing its responsibility in that direction.

All these considerations, and others of a strictly domestic nature, build up a strong case for trade optimism. But when we lengthen the telescope through which we scan business affairs, considerations intrude themselves on our vision that offset the others. Bank loans are still extended. There continues a large supply of unsold goods of last year's production throughout the country. Many retail prices have still to come into line with wholesale prices. Stability abroad, though gradually being restored socially, is far from being restored economically, and the crying need of the moment is to correct the serious situation that exists with respect to the distribution of goods. Some parts of the world—notably Europe—have not enough goods for their needs. Other parts—notably America—have more than enough for their needs. The proper machinery of credit to correct the shortage and distribute the surplus does not exist, hence any immediate trade boom through ridding ourselves of large quantities of our surplus cotton, wheat, copper, wool, leather, tobacco and other commodities, through sales abroad, is not too confidently to be looked for.

It is when we gain a world view of present day affairs, that the truth is freshly borne into our conciousness that we are not suffering merely from the liquidation of a boom period like those known a decade or two ago, but that, as one able economist has described it, "we are undergoing readjustment from the greatest war, the most enormous waste of capital, and the most violent derangement of industry in the history of the world."

Factors For and Against Betterment

EVEN by naturally hopeful people it cannot be overlooked that the world's disorders, which began so violently seven years ago, drew us far out of the beaten track, and that we cannot click back at once to normal life as it was lived before the outbreak of the war. The outside world's disorders touch us closely, and forces and conditions beyond our own shores affect American life and interests so much that they are destined to have a powerful bearing on the progress we make out of the existing industrial depression.

This depression is world-wide in its scope, and the turn for the better, when it comes, should also be world-wide. This does not mean, however, that business in the United States must wait wholly on foreign countries for its signs of improvement. Closely linked as are the affairs of this country with Europe, South America, Asia, Australia and Africa, the greatest market for American products after all is at home, and it is only reasonable to expect that some improvement will come without very great delay after the prolonged and violent period of reaction through which finance and business have passed. Domestic trade is in a healthier and more sane state than before, and were it not for a certain unevenness to the situation that remains to be corrected, a moderate improvement might even now be seen. Prices of foodstuffs and clothing have fallen so violently from their peak that there is a marked disparity in those prices, for example, as compared with rents and freight rates. Shelter and transportation are still at a high price elevation and must be adjusted downward, like food and clothing, if equilibrium, out of which a forward impulse should come, is to be restored. When prices generally are regarded to have approached a fair average we shall have reached the step in the cycle of trade that is marked by the placing of contracts for future delivery.

A New Chapter in History

GERMANY'S penalty for the war has finally been determined, and the matter of the indemnity has left the realm of political discussion and entered that of practical finance. Having accepted the reparations plan, Germany has undertaken an obligation that, translated into terms of American funds, amounts to approximately 33 billion dollars.

Three classes of bonds will make up this amount, the first and second to be issued at an early date, the third to be issued later. According to the foreign dispatches, the first block of bonds, to be known as Series A, will amount to 3 billion dollars and will be issued July 1. The second block, to be known as Series B, will amount to 9 billion dollars and will be issued November 1. Both issues will bear 5 per cent interest, plus 1 per cent sinking fund. The third and largest block, known as Series C, will amount to 21 billion dollars and will be issued from time to time in such proportion as the Reparations Commission may decide, and according to Germany's ability to pay. The Series C bonds will be turned over immediately to the Reparations Commission, but interest thereon will begin only when the bonds are actually issued.

Although not a dollar of indemnity is to be paid by Germany to the United States to make up our losses in the war, the reparations agreement signed last month has a bearing on our welfare which is so direct that we cannot for a moment fail to ignore it. One question that has already presented itself, inasmuch as ours is the world's single great unrestricted market for capital and credit, is that the new German bonds may filter rapidly into the United States and absorb American funds to provide cash payments to the Allies. Governments which receive the bonds may seek to use them as a basis for raising cash, and already, before the bonds are issued, it is being pointed out that because of the difference in exchange, European holders could sell them in our market at a discount, and, receiving dollars, gain a premium by converting the dollars into francs, lire and sterling.

American Investors and German Bonds

WHAT price American investors would be willing to pay for 5 per cent German bonds, and what amounts they would be willing to absorb, still is to be determined, hence it is too early to consider seriously the suggestions that are made to keep such bonds out of the country. At a time when American investors are being urged to extend their funds in the interest of the country's foreign trade, and when machinery to facilitate loans is in process of being set up, it is interesting to note the suggestions that the war-time policy be revived of permitting foreign governments to sell bonds here only on condition that the proceeds of the loans shall remain on deposit until expended for American goods. This would amount to no more than a wholesale granting of commodity credits.

More serious in its larger aspects than any question regarding the possible market for German bonds here, is the question of the effect of the indemnity payments on the industrial life of the world. Indeed, it is not an exaggeration to say that the most vital of all peace problems is the question of Germany's return to commercial relationship with the other nations. Unless Germany is to go to pieces—and that no longer appears likely—she will now be called upon to meet the penalties imposed for her crime of the ages, and lift a part, at least, of the burden from the countries which were innocent of the war, but which suffered its bitterest woes.

Effect on the World's Trade

PAYMENT of Germany's indemnity will have so direct a commercial and industrial bearing that every country of the world will be affected to a greater or less degree. To meet the interest and sinking fund charges alone, on the bonds which are to be issued during the present year, $720,000,000 per annum will be required of Germany. A part of that sum will be derived from fixed annual payments, and the remainder is expected to be received from the export tax that has been imposed.

Without huge stores of gold, and stripped of her former facilities for rendering active services to other nations, Germany can apparently meet the bulk of her interest and sinking fund obligations only in one way; by shipment of commodities to the markets of the world up to a point that will give her a foreign credit balance of values over her imports, sufficient to make payment to her former foes.

Changing to an Export Nation

DEPENDING upon an excess of sales over purchases in foreign markets, Germany must apparently, then, become a producing nation even to a greater degree than before the war. For energetic as she then was, Germany prior to 1914 was not a nation that sold enough goods beyond her borders to offset her purchases; she was an *import* nation on balance, the excess of imports over exports for a series of years averaging $400,000,000.

Now, apparently, that balance of trade must be reversed and Germany must export more than she buys. If this is the only way that the nation can meet her debts—and it is conceded that there seems no other way open to her—a situation is confronted for which there is absolutely no precedent on so vast a scale, and the first question that comes to mind is, How will Germany meet the situation? Will she, an importer of raw materials, find it possible to export sufficient manufactured goods to meet her obligations?

That Germany's commercial and industrial leaders are alive to the situation is testified by word that comes out from the country. Under leadership of men like Hugo Stinnes, Germany is being put into a business combination on gigantic lines, and the movement is going forward rapidly every day. What is known as "Plan Industry" is in process of formation, and, in a fashion forbidden by our own anti-trust law, lines of endeavor are being organized into syndicates. Syndicates of the coal industry, the potash industry and the iron industry, are reported to have been entirely completed by compulsion, and the various boards in those industries now send representatives to Berlin to attend a newly organized congress, known as the Federal Economic Council. Control over output, wages, prices and trade will henceforward be vested, it seems, in this Council. "Gradually," writes an American observer from Berlin, "business and employees in all branches of industry will have representatives in the Council. In the matters of trade, finance and industry, the Council will have the final word * * * This plan puts all business, so far as law making and law execution is concerned, into the hands of business men, and the employees of business men."

What Indemnity Payments Involve

IN the ultimate sense, the nations that suffered the most from Germany's aggression during the war are to be compensated in part by the indemnity for the damage that was done. It is to be made easier for them to live. That is the whole purpose of the reparations plan. But assuming full payment, and looking at the proposition as one involving a coldly scientific problem in economics, the question arises, Will not Germany, as she successfully develops her resources and trains her labor to produce the great surplus production required to meet her obligations, secure a place in the forefront of Europe's export nations? To sell, Germany must compete, and what will be the effect on industry in the exporting nations if German payments are made as the result of offering great quantities of goods in competitive markets at prices sufficiently low to secure sales? An example was cited not long ago of what might occur in shipments by Germany of large quantities of coal into France and Belgium, the surplus whereof those countries immediately exported. That coal came directly into competition with the British export coal trade.

In discussing the situation suggested by these questions, Barclays Bank of London observes, in its latest monthly review at hand:

> "The creation of a huge export trade involves not only the ability to produce an adequate volume of commodities, but also the ability to market them. It is here that one of the principal difficulties arises, for very few countries welcome the idea of German products competing, as they think unfairly, in their domestic markets, and in consequence, in every country throughout

> the world the advocates of protection are seeking new and higher protective tariffs. The attitude of those who, on the one hand, demand an indemnity and, on the other, raise an outcry against 'dumping,' is difficult to understand, but much the same position will ultimately arise with regard to Inter-Allied War debts, seeing that payments on account of principal or interest will have to be made in goods or services.
>
> "The fact has to be faced that if nations refuse to accept goods from their debtors—whether in payment of principal, interest, or of reparations—they will be refusing payment in the only form in which it can be made."

If the Germans meet their reparation obligations with iron and steel products and other lines of manufacture, as well as with potash and other raw materials, the effect of the competition must be felt everywhere. The goods which Germany exports will represent overtime production, and that implies longer hours of work and smaller wages then those of other countries. How will the other countries meet such competition? What will be the effect on the hours and wages of their industries?

Not the least among the nations affected might be the United States, for Germany quite naturally would strike directly into competition with ourselves. And if that does not present a sufficiently baffling problem, additional perplexity may be added by drawing attention to the prospect that England, France and Italy will presently seek to sell heavily in competitive markets in order to meet obligations to us. It must be remembered that on commercial credits Europe in general is heavily in our debt, and sooner or later these credits must be paid.

America's Part of the Problem

MOREOVER, the period for which interest payments on our government credits to the Allies was suspended will expire in 1923, and thereafter, if the obligation is to be recognized, upward of $500,000,000 will be owing to the United States annually on interest alone. It is immaterial whether the Allied bonds are held in the Treasury at Washington or distributed to American investors; if the obligation is to be met by England, France and Italy out of funds secured by the export of goods, and if at the same time Germany seeks to meet her indemnity payments out of funds secured by the sale of goods, the world's trade condition will be complicated indeed.

It is an age of topsy-turvy when, in seeking reparation for the greatest wrong in human history, the civilized world might seem to be taking measures that will build up the industries of the country that did the wrong to the detriment of the countries wronged. That this must not be goes of course without saying; at the same time it also goes without saying that whatever may be before the world, Germany must not escape the payment of the utmost dollar for her great crime. Huge as it may seem, the 33 billion dollar indemnity is small compared with what Germany would have drawn from the Allies and ourselves had she emerged from the war victorious.

"The position," as Barclays Bank observes, "is a very important and difficult one, and if the inevitable disturbance to the direction of world trade is to be reduced to a minimum, its incidence will need to be most carefully studied." The reparations problem is no longer one for statesmanship to settle. Statesmen have done their part; the problem now rests, as do so many of the problems coming out of the war, with the men of business. And by that token a vital business leadership is what the world, as much as at any time before, now requires. In supplying the leadership which is to adjust just such matters as that of the reparation payments, we shall not escape our obligation, for say what we will about avoiding foreign political entanglements, we cannot avoid the economic links that bind us to other nations. After all, the world is small, and the forces which govern its trade must be recognized and met. Like the other nations that took part in the war, we are bound by the economic consequences of the war, and are not free to exercise an economic independence nor even to choose freely our economic relations. It is a made-over world that we live in, one which finds the United States, because of its dominating position, with an extraordinary opportunity and responsibility. It is to be seen whether the country will measure up to what is expected of it; whether, indeed, its leaders will take the part they are being called upon to take in bringing world order out of the existing great disorder.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, July, 1921.

THE American temperament is capable of soaring to the heights and descending to the depths. Lately, under the influence of adverse financial and business developments, it came to be governed by a more or less morbid psychology, and the general attitude toward the immediate future was based as much on a vague sense of helplessness as on tangible occurrences.

Curtailment in commercial activity and increase in unemployment; reductions and omissions among industrial dividends; evidences of further shrinkage in export trade; extreme unsettlement in commodity prices; severe declines in security values: these were among the tangible occurrences contributing to darken business sentiment. It was not unnatural that people everywhere inferred that these occurrences pointed to an unrelieved business depression in the United States during the remainder of the year, and that, also, they reflected an unfavorable turn in the economic situation of the world at large. Plainly the inference of the business and financial community was an unhappy one, hence the sense of impotence to resist the reactionary movement.

It is in just such a situation as that of the present, depressing as it may be, that the foundations are laid for sound and normal business. Until a few months ago popular sentiment resisted the forces in operation that were changing their fortunes, and would not recognize the logic of strained credit, declining commodity prices, diminishing trade balances and shrinking industrial output.

With the country in a new frame of mind, much can now be done to bring a healthy tone to the structure of business, and to hasten the era of what President Harding has euphemistically called "normalcy." Having come through the most acute period of liquidation in many years, and having sustained the heaviest abrupt decline in the general price level in the history of the country, it might fairly be questioned whether the time is right to preach optimism and talk of a forward impetus to trade. American business faces many uncertainties, and no one will safely undertake to express enthusiastic views concerning the future until the immediate period of uncertainty is passed and it can be judged more clearly, in the light of world affairs, whether conditions will support a courageous forward movement. So many difficult problems lie ahead that all of us recognize that every dictate of prudence calls for conservative policies and that the utmost care will be required in readjusting affairs to the sphere into which we have plunged.

Still, accepting all this, there certainly can be no harm in taking stock of the encouraging points in the situation, not the least of which is the fact that we have come to our present stage, in the process of deflation, without a calamity. This is not a negative but a very positive foundation upon which to build a platform of optimism; that a most acute period of liquidation should have been effected without disaster, and that a collapse in prices should have been withstood without so much as the suggestion of panic, is demonstration of a remarkable inherent strength in the country and its institutions.

Present State of Business and Prices

LIQUIDATION has proceeded very far, and although stability has not yet been established to the level of commodity prices, we have approached a stable equilibrium that will encourage a renewal of trade on the part of those who rebelled against the prices of last year and instituted the buyers' strike. The adjustment of prices to a scale means much, particularly with reference to the railroads and the agricultural interests. These interests found themselves hitherto in a very unsatisfactory situation, the worst feature of which was the fact that while the prices they received for their sales were low, the prices they paid for their purchases were so high as actually to forbid liberal buying. The railroads are the greatest employers of labor and purchasers of material in the country; the farmers as a class purchase more manufactured products than any other class of workers. But railroads and farmers must have a margin of income over expenses if they are to buy, and that margin can only come out of a proper equalization of prices.

Although it sounds like to paradox, in view of the existing depression, business is in a far healthier state than it was at this time a year ago when merchants were buying for the automatic rise in values which came while their goods lay on the shelves. Lax business methods have largely disappeared; that kind of speculative buying is definitely ended and merchants are seeing to it that purchases are closely adjusted to demand. Fundamental business is the keynote today, with emphasis placed on careful planning and turnover, hard work, service and salesmanship. The public having turned toward useful necessities, a considerable part of the boom material which was produced simply to make sales is no longer being turned out.

With lower commodity prices, the price of labor is becoming more normal. Railroad wages have been cut down, and steel workers are facing adjustments, which, if carried through without difficulty, will have an excellent effect. There is an insistent call upon the railroads to bring down their charges in line with reductions elsewhere. It is maintained that the relatively low prices now prevailing for commodities make the cost of transportation so much more burdensome to producers than when prices were high and when transportation charges could readily be passed along to the consumers. Inasmuch as existing rates were not enough, with high wages and steel prices, to enable the railroads to earn an adequate return, or even, for that matter, to earn in most cases their operating expenses and a reasonable upkeep, readjustments in wages and prices at least encourage the hope that the railroads will soon be placed in a position out of which concessions in freight rates may properly come. But first the railroads must be given an opportunity to gain their bearings.

Our Relations to Foreign Markets

OF COURSE, in seeking the hopeful signs in the outlook, we come regularly to the main obstacle that blocks trade all over the world, the European unsettlement. Peaceful conditions are returning to the war-torn continent, but peaceful conditions do not mean large purchasing power abroad, nor do they mean a constructive credit policy at home. The Economic Policy Commission of the American Bankers Association summed up the matter lately when it reported: "It is because hundreds of millions of people live in exhaustion and distress, but are unable to buy the raw materials that glut the markets in other countries, that commerce has come to a halt, and it is idle to hope that trade will regain its old stride or that the prices of staple products will revive until the blockade is lifted, and this can only be brought about if conditions are created in which producing countries may venture again to sell their goods on credit to weakened consumers."

Business, Taxes and the Government

ONE OF the really hopeful signs of the times is the positive desire on the part of the administration at Washington to encourage private business and to overcome the baneful effects of government interference that came as a consequence of the war.

With the signs of renewed realization on the part of the government of its responsibility to business, and with the profession of a new moral tone to its obligations, we cannot avoid the ardent wish that the government's sense of responsibility might be translated into a severe economy in its expenditures. Ordinarily, to preach economy is to make of oneself a nuisance. But preaching is necessary to correct an expensive practice. The appropriating of hundreds of millions in the present Congress for the army and navy will play an important part in determining federal taxation, and this in turn will play an important part in the affairs of business.

Creation of a Budget Bureau in the Treasury Department, giving power to the Secretary to prune the annual estimates of expenditures before they are submitted to Congress, and placing the responsibility for the nation's financial program upon the President, is a step in the right direction, for the administration is pledged to a policy of economy, and inasmuch as the public has been brought violently to the practice of that virtue, it is doubly important that the government carry out the pledges it has made.

In the present year, particularly, the burden of taxation ought to be no heavier than is consistent with the fiscal policy. Even if it runs to $3,500,000,000 it must necessarily rest heavily upon those who pay it, and though the old excess profits tax is wiped out there will remain the need for an equitable spreading of the burden. After weeks of discussion it still remains to be determined what substitute will serve in the place of the excess profits tax. Having been driven apparently out of Congress, the sales tax proposal is commending itself again for consideration as being suitable in operation, general in its incidence, economical in collection, and, as a supplement to a graded income tax, a measure that rests with fair equity upon all.

The Situation in the Money Market

SUCCESSIVE reductions at the New York Federal Reserve Bank have lowered the discount rate here from 7 to 6 per cent, after the 7 per cent rate had been maintained just short of a year. This is a recognition both of an easing of the money situation and an improvement that has taken place in the position of the Federal Reserve Bank itself, brought about, in the main, by an increase of gold holdings through imports and a decrease in rediscounts, as well as by a reduction in the outstanding notes.

Money rates are lower throughout the country, especially in those parts where liquidation has been most effective. Like the New York Federal Reserve Bank, the entire Federal Reserve System shows a marked strengthening in its position. For the system as a whole the total of rediscounts now stands about $1,700,000,000, as compared with $2,800,000,000 a year ago, while the reserve ratio has risen to very much the highest percentage since 1918.

All this indicates a highly satisfactory development. But contrary to the popular conception, it is not to be taken as an outward symptom of a general accumulation of spare funds which it is desired to put to effective use. Credit is still obtainable with difficulty, and although interest rates are the lowest of a year, banks feel called upon to exercise the utmost restraint in extending loans, and are insisting, where they can, upon curtailments in line with the changed aspect of business affairs.

This is because, although showing steady improvement, the domestic situation is still more than normally tense, chiefly on account of the confusion in international credits and the continued burden imposed by the so-called frozen loans. While in the Eastern States liquidation has proceeded quite effectively, commercial and industrial loans having been decidedly reduced, there still are large export credits outstanding which will require time to reduce. In the South and West liquidation has not as yet been carried all the way; important amounts of farm products from last year's output are still in the hands of producers and are carried by the aid of bank credit. In view of the severity of the decline in cotton and grain prices, many interior banks are unwilling, even with new crops in sight, to urge their customers to sell the products that support their loans, in the fear that such selling would result in cutting down further the current values.

The Position of Labor in the Present Era

THE close kinship between the prosperity of the working man and his employer was never more clearly demonstrated than today, when working man and employer alike are being called upon to meet drastically changed conditions. Wage reductions and unemployment, following hard upon price reductions and business losses, are restoring to men's sight a better perspective of their place in the general economic scheme.

The majority of people in this or any other country are wage earners, yet it was among the majority that during the war, and afterward, sight was lost of the fundamental laws of economics. True, the entire fault lay with no single individual, or group, or section of the human family. All of us were told that out of the war was to come a new world; many of us had interpreted this to mean that our entire system of labor, pleasure, religion, finance and government was to be transformed. Russia first demonstrated its entrance into the supposedly new world by casting out the whole economic system that had capital for its base, and turning everything over to the proletariat. In various ways England, France, Italy and other countries of Europe entered upon an epoch out of which it was fondly believed would come a final realization of those "passions and yearnings of mankind" which for generations were seething incoherently and which the war had answered. For a time strikes and sabotage were seemingly the means selected to bring about that realization.

In the United States the manifestation of the new order was not altogether original; we had no communism, or overturn of government, or seizing of plants by the workers, but we had a progressively increasing assertion of the rights of labor, a growing contempt for authority, and a constant arrogating to itself on the part of labor, as a class, of the direction of business and government. Since long before the close of the war we had, again and again, statistics showing that as wages progressively rose there went a lessening of efficiency, and not only that, but an aversion to work and a shirking that, carried to its ultimate limit, would have brought about an impossible condition.

Perhaps the scales are still only partly lifted from the eyes of those who were lately blinded to the proper economic relationships; the change in industrial conditions having been very recent, its lesson may not as yet have struck fully home. There still are those who, either wilfully or ignorantly, allege that the evil of present conditions is to be found in an attempt on the part of capital to "deflate" labor, a like undertaking having already resulted in "deflating" the farmer and his scale of prices. There are others, too, who say, as one labor leader recently was quoted as saying, "organized labor will insist not only upon maintaining the present standards of wages and working conditions, but proposes to continue its struggle to further improve those standards."

Importance of the Readjustment

IF to right thinking men this suggests anything, it is that there still are labor leaders who fail to recognize that the interests of labor, management and capital are identical; who fail, in other words, to see that "all are milking the same cow." It is in the readjustment of labor's attitude toward its job that we have much to hope for in the future. For, after all, looking at the subject in its broadest lines, it is not alone a lowering of wages that will restore stability and speed the wheels of industry, but also a change from the spirit of the past few years which came to be termed the greatest of the world's plagues, namely, the contempt for any rule save one's own. Speaking before the Pennsylvania Bankers Convention early in June, James M. Beck said:

"Go all through this world and everywhere you will find, not only in government relations but in all walks of life, the challenge to authority, the denial of leadership, the refusal to obey. The whole world is suffering as the Russian army suffered in 1917, when it went to pieces * * * through the spirit of insubordination."

Experience has shown that organization to secure and maintain the rights of men who toil with their hands is justified and that it will go on; but experience has also shown the vicious consequences of the usurpation of labor authority over the authority of management and capital. Not all labor, by any means, comes under the indictment; there is today and has been a great army of clear-thinking, loyal American workers, who know that progress is found in a maintenance of the right relations of the industrial elements. But over against this army is the other which only a little more than a year ago not only walked out on strikes when it sought an increase in its pay, but violated its most solemn agreements at the smallest provocation or without provocation at all. Early in 1920 a list was published showing abrogations of agreements with employers on the part of longshoremen, printers, plumbers, metal workers, miners, steel workers, bricklayers, plasterers, teamsters, cement finishers, bakers, hat makers, electricians, cigar makers, granite cutters and common laborers; specific instances of repudiation of contracts were reported in states all the way from Massachusetts to California.

Men who in one year have an attitude toward their work that expresses itself in deliberately defying the sanctity of contracts could not be expected, in the very next year, to come by conscientious reasoning to an opposite attitude. Sadly enough, men who do not learn through conscience or intellect must learn by experience, and experience is now teaching unemployed men in the United States that industry can prosper for the benefit of no one class alone, but that brains, management and capital are quite as much needed as labor, and that brains, management and capital can co-operate effectively with labor only on a basis of common integrity and common sense. It is not pleasant to think of unemployment or wage reductions as a necessary corrective of evils that have developed in society, yet it is by the hard lesson of present experience that we shall get back to something like the normal relationships, out of which will come our next swing into prosperity.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, August, 1921.

SO FAR as international relations are concerned, the extraordinary degree to which American influence can be exerted for Europe's welfare or grief impresses itself afresh with every passing day. As the single great free market for capital and credit, as well as the source of the world's most abundant supply of raw materials, foreign countries have for seven years, or since the outbreak of the war, looked hither for assistance, and they are not ceasing to do so. Adding together the net amounts due on government and private credits, more than $18,000,000,000 is now represented as the sum owing to this country from abroad on balance as a consequence of international trade relations of the past seven years. Nothing like such a sum was ever before owed to the people of a single country by the people of other countries, yet in spite of the fact of this record, American credits continue to be sought from every side, so that purchases may be made of American wheat, copper, cotton, steel and other products.

Developments in recent weeks have been of a nature to show that although the machinery is still lacking to extend long-term American credits where they are most desired, the negotiating of short credits is not only feasible, but can be made to serve very directly in the interest of American trade. Acceptance credits, and similar advances made to German and other foreign interests, are not likely of themselves to be of sufficient volume to bring about any decided revival in our export trade, or to relieve our producers of more than a moderate portion of their accumulated surplusage. But they offer a positive sign that points in a favorable direction, and indicate that American business and finance are alive to the opportunities of the foreign markets.

The manner in which we meet the requests for export credits will have a large bearing on the pace and the extent of recovery abroad. So also, and by no means incidentally, will the manner in which Congress determines the adjustment of our Treasury's credits abroad, amounting now, principal and interest, to nearly $11,000,000,000.

The Debt to the United States

THE suggestion of a cancellation of all or a part of this indebtedness has been made from time to time since the armistice, but it is quite apparent that neither the present Administration nor the people of the United States at large are at this juncture sympathetic to the suggestion. Interest payments on this debt were deferred during the war, and are not scheduled to begin until 1923. The date is some time off, but not so far off that any rigid decision adopted at Washington, calling for a sinking fund and for the payment of more than half a billion dollars interest yearly, will not have a bearing on the immediate outlook of our trade with Great Britain, France, Italy and Belgium.

Insistence on early payments against these obligations would necessitate, on the part of other countries, heavy shipments of goods and gold hither, and further curtailment of purchases in America. That we do not desire heavy shipments of goods to our shores, particularly of goods that will compete with our own production, is indicated by the extraordinary effort Congress is now making to build up a protective tariff wall which cannot be hurdled. That we do not welcome a flood of gold is indicated by the sober warnings, given by our bankers, that with nearly 40 per cent of the world's monetary stock of the metal, we are even now depleting other countries and surfeiting ourselves to the detriment of all. That we do not welcome a further curtailment of purchases in this country is indicated by our concern over the effects of our present stored-up supply of unsold goods of past production, and over our present unemployment situation, which is largely traceable to the shrinkage that has occurred in our export trade.

Improvement in Foreign Conditions

THAT social and economic conditions in Europe are gradually being improved is shown in many ways, and returning travellers testify that conditions abroad are brighter than at any time since the ending of the war's hostilities, now nearly three years ago. To be sure, the room for improvement is great; the war's legacy of industrial upheaval and commercial chaos, of currency inflation and disordered exchanges, of tax burdens and government deficits, has left room for economic improvement that will require years and even generations to bring about. President Harding said of America in his address to the Senate of July 12th that from the time of his inaugural he had been "contemplating conditions that would stagger all of us were it not for our faith." That applies with greater force to Europe than it does even to our own country, and the fact that tangible progress is being made at all is a testimonial to the courage and ability of the leadership that is being provided.

France, Belgium and Italy are mentioned favorably in spite of the handicaps which they have to overcome; Germany is particularly mentioned for the progress that is being made. Germany is taking an increasingly important place in the course of events, and expert observers here and abroad agree that the ramifications of her endeavors, not alone to make reparation payments but to reestablish herself commercially, are having a pronounced influence. The seeking of loans in other countries, the increased demand for American cotton, copper, grain and other products, and the progress made in the reparations situation itself, combine to show how Germany is bending every effort to retrieve her position.

Germany and Great Britain

IN normal times that country was a large purchaser of American raw materials, and as a potential purchaser here few other single countries hold out to us greater prospects. It is agreed, however, that the Germans are buying carefully and are seeking the best possible terms on their raw-material purchases, at the same time that they are building up their manufactured exports. Unemployment in Germany, it is interesting to note, is relatively less than in other parts of Europe. Paying wages in depreciated funds at a rate of 60 marks a day or less for ordinary labor (that is an equivalent of 80 cents in American exchange), German manufacturers find themselves in an advantageous position in the export markets, and are making the most they can of it. That is in contrast with Great Britain where, although the acuteness of the recent labor troubles has passed, the effects on trade are still apparent. British exports lately have fallen to the smallest volume of many years, and though imports also have declined, there remains a formidable balance of trade, unfavorable to Great Britain, that in spite of the "invisible" offsetting factors has a very direct bearing on the unsettlement of sterling exchange rates in the international markets. Movements in the rates of exchange on the Continental countries also show that, while the improvement of these countries is not to be denied, the adverse factors which remain to be overcome before this improvement can lead to prosperity are still dominant in their affairs.

Unfortunately, as is the case after every war, the administration of business and finance is hopelessly mixed in every country with the administration of government, and political expediency too often operates where financial judgment should rule. Hence we see, for example, a failure on the part of nearly every country on the Continent even yet to match national expenditures with adequate taxation. All the countries that are to share in the German reparations are counting heavily on the benefits to be derived, and for all of them it is maintained that they can now begin the work of economic reconstruction on a more practicable basis than had been possible at any time since the war ended.

Effect of the Indemnity

YET this anticipation is matched by a sincere and steadily growing belief that, much as the reparation payments will mean to the countries receiving them, the payments themselves will be made only as Germany's export trade improves at the expense of the trade of those countries. Germany cannot pay with gold and will have to ship goods. Of course, the agreement on the plan of reparations was only the first step of many that are to be taken; the payments themselves and the administering of those payments are in the future. The problems involved, however, are of tremendous importance to the direction of the world's trade and to the prosperity of all the nations, and too much present attention cannot be given to their scope and significance.

Europe's Worst Sore Spot

WHEN talking of brighter prospects in Europe, practically all observers record one great exception—Russia. That country, in which for four years there has been conducted one of history's most tragic social and economic experiments, remains shrouded from the outside world. Reports that the red rule of Lenin and Trotsky is about to collapse have been repeated so often that they no longer command trustful attention; having since 1917 succeeded in crushing all attempts at counter-revolution, the soviet rulers would seem today to be more firmly established than at any time before.

Of course, our intelligence, coupled with such knowledge as we have of the failure of the communistic experiment, will not permit us to entertain the belief that Russia's present rulers can go on indefinitely with their ruination of a people more numerous than those of the whole North American continent. Even the most casual review of their career shows how abjectly these men have failed in everything save the quenching of counter-revolutions. They have failed in their promise, made to the peasants, to socialize the land. They have failed in their promise, made to the workers, to establish industrial communism. They have failed in their promise, made to the soldiers, to bring peace.

The Situation in Russia

BY contrast with their promises, these men who four years ago were to do away with armies, today maintain what is numerically the world's largest army, made up of conscripts. As for their land decree of November, 1917, which expropriated completely and without indemnity the landed proprietors, that has been scrapped, and according to a recent statement from Emile Vandervelde, the Socialist minister of justice of Belgium, "in the domain of agriculture it is no longer contended that the Russian revolution tends toward communism, but it is admitted that it tends toward private appropriation." As for the sovietizing of industry, and the giving over of the control and administration of industry to labor, that has proved a ghastly failure, and has made of Russia what lately was called by Secretary of State Hughes a "gigantic economic vacuum."

The power of capital was to be forever abolished under the communist regime, yet Lenin, it is said, has lately offered concessions right and left in order to attract foreign capital, and as a prerequisite has agreed to recognize the obligation of old loans.

Leonide Krassin, the representative in Great Britain of the soviet government, recently was credited with this statement in the London *Times:*

> "Moscow now finds it necessary to enter into trade agreements with capitalists all over the world. Russia at the present moment welcomes the foreign capitalist, and this policy finds its immediate and purely economic expression in our new policy of concessions. Russia herself cannot bring together her resources in a productive manner and she must rely upon capital, the experience and initiative of foreign capitalists, to bring about a stable economic condition without which a prosperous Russia will be impossible."

In viewing the whole picture, it is only right to note that a surrender of principles has not been alone on the Bolshevist side; the world's finance and trade are ever impatient, and in the interest of profit a yielding has been made by the outside world as well. During the first period of the Bolshevik rule, the policy of the outside nations was one of a rigid blockade of Russia, and a more or less direct participation in the military operations against the soviet government. A year ago, when trade depression set in all over the world, military operations ceased, and although official relations by western countries were not established, restrictions were removed against trading in Russia on private account. More recently a treaty has been signed between Great Britain and Russia, and Germany has also entered into a trade agreement.

Possibilities of our Trade

IN view of what Great Britain and Germany have done, the wish has repeatedly been expressed lately, on the part of American producers and manufacturers who are seeking urgently to sell their goods, that Russia, which is seeking desperately to secure goods, might be opened freely to our trade. American capital never in the past sought actively after concessions in Russia, and direct trade with Russia prior to the war was never noteworthy for its bulk. In 1913, the year before the beginning of hostilities, a high record was reached with $26,400,000 of exports to Russia and $29,300,000 of imports from Russia. Relatively, our direct trade with that vast empire was only one-half that of our trade with so small a country as Belgium, and one-third that of our trade with either Holland or Italy. Yet today, in spite of Russia's geographical location, the thought of that country as an outlet for goods is alluring to many American producers.

What so many of them fail to recognize, however, is that while the United States has not recognized the soviets, Russia is, and has for some time been, open to our trade. As long ago as in April, Secretary of State Hughes answered a question regarding this when he wrote to Samuel Gompers:

> "Restrictions on direct trade with Russia were removed by the United States on July 8, 1920, and both American and European goods have been sold to Russia. But the volume of trade has been unimportant, due to the inability of Russia to pay for imports."

Continuing, Secretary Hughes wrote:

> "The devastation of industry in Russia has been so complete, the poverty of the country is so acute, the people are so hungry, and the demand for commodities is so great, that at present Russia represents a gigantic economic vacuum, and no evidence exists that the unfortunate condition described is likely to be alleviated so long as the present political and economic system continues. Though there is almost no limit to the amount and variety of commodities urgently needed by Russia, the purchasing power of that country is now at a minimum, and the demand must consequently remain unsatisfied."

What the Future will Disclose

WHAT the outcome of it all will be remains for the future to disclose. After anarchist Bolshevism and military Bolshevism, Russia has now reached the phase of liberal Bolshevism. A next phase is inevitable; Lenin and Trotsky have already yielded the principles which brought them into power, and to save themselves are modifying or eliminating completely, one by one, the monstrous features of their social and economic system. It is inconceivable that a perception of their abject failure should not be penetrating more and more deeply into the spirit of the Russian workers. Looking at Russia from the outside in a cold, practical way, we see a country made up of 140,000,000 people who truly typify a vast tragedy. But what we only *see*, they *feel*. Month after month they have gone down into a social and economic abyss, and it is not difficult to believe the dispatches that appear in the newspapers which tell of roving bands of starving people who steal any kind of food that they may live, and which tell of the spread of cholera and typhus among the population.

If at this remote distance anything is clear about Russia, it would seem to be that the party of which Lenin is the head, and which is made up of only 600,000 members in Russia, cannot long go on imposing its political will upon a desperate people. The ground has for some time been giving way under their feet; how much longer they can hold out is an open question. At least, however, this much is sure; communism has failed in Russia because it defied immutable basic economic laws, and now that an economic vacuum is the result, a mere modifying or yielding of communistic principles by Lenin will hardly suffice. The damage done has been too absolute, and out of an utter economic collapse it remains for a whole people to build anew, in every sense of the word.

Events in Russia are moving to a climax, and following that climax, a people shut off from the outside world since 1917 will strive to take a place again in the social and economic system. When they do that, it will be in either of two ways: (1) By themselves, suffering in the meanwhile to the utmost, but adhering to the principle that every worthwhile people come out of trouble by their own force; or, (2) By the help of international intervention, which will guarantee peace and a right development, and which will seek to create a basis that will justify the foreign help and the vast investment of foreign capital which inevitably will be required. In any case Russia's rebuilding will be a world problem, and it will be of no small interest to note the part the United States, as the world's most powerful nation, will eventually take in helping to solve that problem.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, September, 1921.

TWO thirds of the year 1921 having gone into history, business and financial leaders are counting hopefully, for the remaining months of the year, on the benefits of the sweeping adjustments that the elapsed portion of the year brought about. "Deflation" has now become very much of an actuality, and so far as our domestic situation is concerned we may be said to have obtained a fair start in the attempt to put our house in order.

That the industrial depression has spent its force and that the ebb tide will be followed by a gradual turn is the general belief, and there would seem to be sound reason for this belief. Close observers of the situation become increasingly cautious in attempting to stipulate any definite time when "revival" will set in, and it is widely felt that any improvement this fall will be mild. But there are some unmistakably cheerful signs on the horizon. During July, for the first month in a year and a half, the index numbers of average commodity prices compiled by Bradstreet's and Dun's agreed in showing an advance. Even the steel trade, long regarded as the "key industry," though in the present cycle its readjustment has lagged behind every other, has shown substantial improvement in activity in recent weeks.

Net railway earnings in June, the last month to be compiled, were the largest since November; and the attitude of the Administration in urging and effecting railroad relief measures has created a better feeling as to the future of the railroads than has existed since the period of Federal operation. Financial relief to the railroads will indirectly thaw out hitherto frozen banking loans and make possible steel and equipment buying that may help to turn the course of business generally. Brighter tax prospects are ahead in the present program of Congress, and the forthcoming disarmament conference in November may have the most far reaching results in reducing this burden on business.

Restoring Stability in Prices

AMONG commodities, the decline in wholesale prices slowed down some time ago, and that we are not threatened with further drastic general declines has been indicated in the recent movement in staple commodities. There remains a great deal of unevenness in price levels, and there are not a few articles which are still in the stages of deflation. But the stabilizing process is well under way, and where prices fell too much they are now beginning to ascend to their rightful level.

That the autumn will bring a strong revival in buying demand, however, and a sharp recovery in prices, is more than can be hoped for in general business. There is still a large supply of goods of former production to be worked off in the markets, our export trade has not revived, exports for July being, in value, the smallest since September, 1915, and domestic buyers on the whole are still pursuing a hand-to-mouth purchasing policy in the hope that prices generally will recede to their pre-war level. In short, we have not yet reached the step in the business cycle which is marked by the placing of large contracts for future delivery.

In a measure this is due to the fact that retail prices continue reluctantly to adjust themselves to the reduced wholesale prices; in a further measure it is due to the lessened purchasing power of the country. The reluctance of retailers to sell goods for less than they themselves paid, and their reluctance to name prices consistent with those being quoted at wholesale, are slowly being overcome, however, and we are reaching a comparatively stable business basis as readjustments are being accomplished.

Comparisons with Pre-War Years

A VERY practical question that arises in this connection is that which asks whether business affairs would become entirely stabilized, and whether conditions as a rule would be wholly back to normal, were prices to return speedily to their 1913-14 levels. The question is regarded as a fair one today, although last year no one would have thought to ask it. Then we were told that we were in a "new era"; with so much money in circulation, so much credit extended, and such a world shortage of goods, most of us believed that a long time would elapse before pre-war prices returned, if ever they did return.

Men as a rule are in the habit of gauging affairs by given standards, so, in view of the violent adjustments of the past year, it is not unnatural that in seeking to determine how far adjustments must proceed before prices, production or trade should reach equilibrium, we should have come to make comparisons with a period in the past that would serve as a standard. This explains the frequency with which comparisons have been made with the pre-war year 1913-14; it explains also the widespread belief that if prices were to recede to the pre-war level, they would again be normal, and the period of deflation would be at an end.

Pertinent, then, to the current theories and beliefs is the fact that lately the prices of textiles, cotton, corn, cattle, hogs, hides, rubber, coffee, sugar, copper, zinc and other commodities have been down to, or below, the prices of 1913-14, and that index numbers show the average level of prevailing prices to be not so very far from that of the period immediately preceding the war.

But after all, is it safe to base business hopes on so simple a foundation as the nearness of present prices to those of seven years ago? We say that prices were normal then, and yet as a matter of simple fact this was not so, for there is no such thing as normal in prices. Prices always have fluctuated, and always will, according as they are governed by changing conditions in production, distribution and credit.

What Prices Really are Based On

IF IT proved delusive a year ago to make price predictions it might prove just as delusive to do so today. Conditions in production, distribution and credit are today unlike any with which the world has been familiar, and with prices in the United States determined by the equivalent of gold for which a given quantity of an article will exchange, and prices in Europe determined by the equivalent of paper for which that same article will exchange, we have a situation regarding which we cannot argue by old standards or rules.

It is not past price levels but present and future conditions in production, distribution and credit which must be considered when seeking to determine future price movements. Hence there must be considered the present unsold surplus of raw and manufactured goods in the United States, the collapse of speculation, the prevailing wave of economy, the reduced purchasing power of the public, the curtailment of export credits, and the poverty abroad. These factors operate palpably in one direction. Others, again, operate in the opposite direction. The sharply reduced rate of production and the fact of a serious world shortage of goods, coupled with the efforts that are being made to build up credit machinery that will enable America adequately to meet that shortage, offers a strong influence in favor of higher prices; so also does the indication of a gradual increase in purchases to meet real needs, and the abandonment of the "buyers strike" at home. Again, there is the building up of the tariff wall around the United States, and the influx of gold, both of which contribute their influence to advancing prices.

It is seen, then, that many factors are in operation to determine the future of prices, and a study of these factors, more than of old standards, will prove important as time goes on.

Influence of Credit on the Future

BANKING and credit conditions will undoubtedly have as much to do in determining the course of business affairs during the remainder of 1921 as they have had since the beginning of the year. Notwithstanding the severity of the readjustment through which we have passed, the demand for banking credit as well as capital funds is still greater than the supply. The fall in commodity prices and the setback in business have reduced the savings of people this year, just as did the habit of extravagance last year; hence, the accumulation of new wealth is limited at a time when there is a demand that, taking the world as a whole, is unlimited.

Much necessary financing is to be carried forward in the interest of domestic business and the government. But it is not only from domestic sources that the demand arises; were we so disposed, foreign countries would absorb our funds as fast as they accumulate, and would pay a liberal rate therefor. The demand for both banking credit and capital funds is world-wide, and if any prediction is warranted it would seem to be that rates of interest will not ease materially until we have saved sufficient of our production to balance the demand with the supply.

As for domestic commercial credits, banks are carrying the load and carrying it safely; they have proven a pillar of strength in the storm of deflation through which the country has passed, and although the weight upon the pillar is lighter than it was, the weight is still to be adjusted before the banks can properly be expected to contribute their resources to fresh expansion. So long, therefore, as the situation continues in which as quickly as credit is released and made available in the market it is immediately reabsorbed, it may be ventured that a general relaxation of credit restrictions will not be seen. Moreover, so long as the demand for accommodations is sufficiently large to make extensive recourse to the Federal Reserve system's facilities necessary, the maintenance of rates will encourage the payment of loans, with the result of hastening real ease in the money market when those loans are paid off.

Obligation Placed Upon the Banks

TO EXERCISE care and yet operate helpfully on the side of constructive business, patience and judgment are called for. It is no small responsibility that is imposed upon the banks which are sustaining the large credit carry-over from last year, at the same time that they face the need of rendering assistance for legitimate fall business and for the movement of the new crops, which soon will be coming in. The South and West are expected to increase their borrowings from the East during the crop season, and strength will be needed here to meet the demands. In view of this it is only right to expect that a lowering of rates too far, encouraging a recurrence of speculative activity, will be severely discouraged, inasmuch as that would leave the stronger parts of the country in poor position to comply with the demands of other regions for their current needs.

It is true that our basic gold reserves are greater than ever before, and that our general banking condition is stronger than at any time in a number of years. Upward of $460,000,000 gold has flowed into the United States from other countries since the opening of the present year, and our stock of the metal has reached a total that represents not far from 40 per cent of the entire world's monetary supply. Due partly to the influx of foreign gold, and to the policy that has been maintained since 1918 of concentrating our gold in the single reservoir of the Federal Reserve system (there is practically no gold in general circulation in the United States) the reserve percentage of the Federal Reserve system is the highest since 1918.

Position of Reserve System

THERE appears to be a widespread impression that while Federal Reserve resources have increased, the liabilities of the system are now abnormally low. When we analyse the country's banking situation we find that the process of deflation through which we have passed since 1920 has indeed reduced the Federal Reserve liabilities materially, but we also find these liabilities are still abnormally high, and are likely to continue so for a considerable time to come. "Frozen credits" are still a matter of consequence in the money market; in every part of the country there are producers, farmers, manufacturers, exporters and other borrowers whose indebtedness to the commercial banks is being liquidated so slowly that the banks continue to resort to the facilities of the Federal Reserve system.

Until this condition is considerably modified, the artificially high reserve ratio of the Federal Reserve banks must be regarded in the light of other circumstances. It has been said before, but it bears repeating, that with America the gold pivot of the world, it would be far better were gold going out at this time to the countries where it is most needed, rather than flowing here in a broad stream to contribute new elements toward a renewal of inflation and to stand in the way of restoring equilibrium to the international exchanges.

Time will show whether or not much of the gold that is now coming to the United States will flow out again to the countries where it is needed to restore sound banking and currency conditions. Until it is determined whether we are to make the most of our new position as world bankers, and whether we are to regard our international opportunities in a broad light, it would be well to build in a very cautious manner upon the foreign gold that is coming to us. For us to expand our activities rapidly on the foundation of this new gold, and especially for us to force a condition of cheap money at this time, would invite an undoing of much of the progress that has been made toward stability and equilibrium.

The Scientific Basis for Rediscounting

THERE are those who would have the Federal Reserve system take the initiative now in removing all credit restrictions and hastening the return of cheap money. But as the Economic Policy Commission of the American Bankers Association recently pointed out, "until a solid basis for a revival in distribution and production is found by the return of the European purchaser as an important factor in the world's markets, and until a readjustment of wages and retail prices has taken place approximately corresponding to the level of prices of raw materials, any attempt to facilitate liquidation through the use of easier money rates is not likely to prove of lasting value."

A policy in coming months of holding the rediscount rates of the Federal Reserve system above the "going," or open market, rates for money, attaching a penalty rather than a premium to borrowing and thus discouraging the practice of borrowing from the Federal Reserve Banks to relend at a profit, would help considerably to hasten the return of stability in our financial affairs. During the war, because of the need for assisting in the flotation of enormous government loans, Federal Reserve rediscount rates were lower than those of market. That policy cannot yet be said to have been abandoned, and the fixing of the Federal Reserve rates below the market rates is persistently urged by the advocates of lower money rates, as though that were the normal and natural relation.

With the growing strength of the Reserve System and the steady diminution of rediscounts, the present time would seem to offer an excellent opportunity to regulate the reserve rate in accordance with the scientific principles which had so much to do at the outset with the creation of the system.

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OCT 1921

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, October, 1921.

UNUSUALLY interesting at this time, because of its bearing on the whole economic welfare of the country, is the situation in the money market. The autumn as a rule is a period of advancing discount rates; demands for crop moving and for business expansion ordinarily combine at this season to make inroads on the reserves of the country's financial institutions. It is the fact that the money market this year is not following precedent that adds so greatly to its interest. The past fortnight has brought the fourth reduction of the year in the Federal Reserve's discount rate; that stands now at the lowest level since January, 1920, hence it may fairly be said that the organized restrictions which played so important a part in the deflation of the past twenty months have now practically disappeared.

Quite naturally, the inference drawn from this in various parts of the country is that a period of low money rates is before us, and that business and finance will now feel the stimulation that comes when it takes advantage of easy credit conditions. Perhaps the inference is correct; deflation has carried the country a long distance in the matter of liquidation, and any justifiable forward movement at this time would be greatly helped by a banking position which extended help instead of hindrance to its progress. At the same time it does not necessarily follow that the banks of the country, because the rediscount rate of the Federal Reserve System is down, will now act as a unit in releasing credit in the interest of a general and wide expansion, for the reason that a great many banks are still borrowing in order to assist their patrons.

Gold Imports and Deflation

NO OBSERVATION of the influences dominating the money market can be complete which fails to consider the immense flow of foreign gold that has increased the supply of the metal in the vaults of the Federal Reserve banks to $2,700,000,000. It is not alone deflation of bank loans that has served to ease credit in the United States; important as this has been, it is matched in its importance by the unparalleled inflation of our gold supply. Taking the figures of the Federal Reserve system alone, we find that rediscounts have fallen $1,300,000,000 in volume in the course of the past twelve months, while gold reserves have risen $750,000,000. The consequence is that cash balances of the system are now greater than any other banking system of the world has ever boasted, and twice as large as is actually required by law.

To the unthinking gold is wealth; to them, therefore, the accumulation of nearly two-fifths of the world's monetary stock of gold within the borders of the United States is simply a manifestation of the tremendous economic power which has come to the country. That this metal can properly serve as a basis for credit expansion is the belief that is held, no doubt, in every section of the country; even ordinarily careful thinkers are today expressing their satisfaction in the control which this country has achieved over the world's record reserves. Time and circumstances will show how far there is a fallacy in this. Every country of continental Europe is so lacking in gold that currency there continues debased and irredeemable, thus imposing a condition which stands squarely in the way of restoring international credit and reopening the channels of trade. This country, on the other hand, possesses such an abnormal supply of gold that there looms the real danger that it will unduly cheapen money rates and open the doors to a fresh era of inflation.

It would seem that a reasonable remedy for all this should suggest itself. Yet it is a startling mark of the degree in which the world's economic forces are out of joint when we have to admit ourselves powerless, at the moment, to transfer any substantial part of our surplus gold to where it would do the most good. As the world's great creditor country and the great source of raw materials, any gold we might lend to other countries would in all probability immediately find its way back, to satisfy maturing obligations or to negotiate fresh purchases. Students of the phenomena of our great gold imports have all along predicted that our superfluous reserves would eventually find their distribution along the lines of foreign trade; they have said that Europe itself would draw on these in connection with the reform of its paper currencies. But there is no sign of any immediate or early fulfilment of this prophecy, and in the meantime it is our problem so to adjust our business and financial structure that even though we possess two-fifths of the world's monetary gold, we build lightly on that part of the gold which other nations in their necessity have supplied, which we ourselves do not need, and which some day we expect to release.

The Condition of Business

IT IS not easy, in a period of confusion and doubt like that through which the world is passing, to determine just how each major element in the situation is operating, and the degree in which each is developing for good or ill. Like other countries, the United States has its present trials, and suffers in an industrial depression which President Harding has described as "a war inheritance throughout the world." The inevitable readjustments from the artificial stimulation of the war boom and from the expansion of the period immediately following the war have been drastic and painful to this country, and their consequences continue to be felt. But speaking broadly these readjustments have been toward health and not away from it, and the tangible good effects are making themselves apparent.

This, of course, does not signify that we have definitely reached the bed-rock of reaction and that the upward swing is under way, needing only the free flow of credit to carry it into the fulness of prosperity. After a season of deflation, doubt and cross currents, the economic soundness of the country is asserting itself in a way that is sufficiently notable to command the attention and envy of the entire world. But trade as a rule improves in the fall of the year; October and November are months when men naturally take hold of things with vigor and seek to overcome the summer slack. The seasonal autumn expansion that always bears a favorable contrast to summer dulness should not, therefore, be mistaken this year for the beginning of a pronounced and substantial business revival. Improvement is under way, but a broad, general sweep forward is not immediately to be expected, for while domestic influences would seem to be contributing to a betterment in business, there are other than domestic influences that supply a governing element in our affairs, and it is these that must be adjusted favorably before the full tide of business health can make itself felt.

Europe's Bearing on World Conditions

THE world's convalescence from its war sickness of 1914-18 is still far from complete, and today, nearly three years after the signing of the armistice, there seems to be a greater confusion of thought regarding the progress of recovery than at any previous time. It is obvious, when we speak thus, that Europe, and not the United States, is at the bottom the cause of this confusion. By itself, the United States stands as the envied of all nations for its economic strength, stability and outlook, whereas with respect to Europe it is using no mere figure of speech to say that the most complex social and economic problems of all time are being worked out, slowly and with difficulty, on the other side of the Atlantic.

A war so wasteful and of such magnitude as that for which Europe was the stage for four years, and a fixing of peace terms so drastic and far-reaching as those written at Versailles, made it inevitable that the recuperation period would be painfully drawn out. Yet it is only as the months have gone on, and as time has unfolded one problem after another in its full complexity, that Europe itself has come to an appreciation of its condition, and of the difficulties involved in that condition. So many of these difficulties are of an economic nature that it may be of interest to set down the headings of the chief of them. They are:

1 *The buying power of millions of people, especially in Russia, Germany and Austria, is severely curtailed, or has broken down altogether.*

2 *Credit relations are disorganized, and there is no machinery set up for speedy reorganization.*

3 *Currencies are debased and in some countries almost worthless, and progress toward restoring the gold standard, or establishing any other standard, is slow.*

4 *Lack of credit and stability of exchanges have paralyzed the whole scheme of international commerce.*

5 *Debts and taxes are heavy and the burden is telling on the people.*

Factors that Govern the Outlook

EVERY country and every situation abroad offers its own enigma; the future of Germany is only in a degree more difficult to read than that of France, Great Britain, Italy or the others. Germany is the center of world interest at the moment, and because that is the one great country where every workman is busy and where unemployment and hard times are seemingly unknown, there is bitter comment on the manner in which Germany is "winning the peace." On the surface it would appear that Germany is truly forging ahead, yet the problems of that country—involving, as they do, territorial and industrial readjustments, indemnity obligations, currency debasement, collapsing exchanges, stifled trade opportunities and social and political upheaval—by no means contribute to the prosperity and contentment of the affected people.

The optimist, faced with the riddle of Europe, maintains that often when things appear the worst they are really much better; Mr. Lloyd George, the British premier, (than whom no one should have better sources of information upon which to base his opinion) holds that, "from the touch of things and the sight of things, comparing them today with a year ago and the year before, they are gradually getting better."

In their action on finance, commerce, industry, agriculture, and government, we shall have an opportunity to see, in the coming months, whether the big impulses of the times are truly operating for Europe's betterment, or whether they are checking the processes of reconstruction. Much, after all, depends upon the people themselves. For while it is a fact that trade and credit are at present so restricted that scores of millions of people cannot get down to full and profitable production, it is also a fact that socially and politically there is an unrest which is unmistakably a hindrance against the return to stability and prosperity.

Where One Difficulty Lies

PEOPLE dwelling in harmony with one another in the United States cannot, perhaps, appreciate the degree in which industry and finance abroad are brought at every turn under the dominance of other than purely economic factors. Americans who have gone abroad to learn what the people are thinking have been especially surprised to find on the Continent an atmosphere of nervous exaggeration, affecting whole people, of self-righteousness, self-pity, distrust and vengeful wrath. Though the war is ended and peace ostensibly established, daily discussions concern themselves less with matters of reconciliation and reconstruction than with disputed territories and borders, with racial and trade animosities, with indemnity demands and with peace treaty resentments.

Whether it is because feelings were stirred too deeply by the war to be readily allayed, whether it is the faultiness of the peace treaty that is now showing its harmful consequences, or whether it is that the reconstruction burdens are too heavy, it is manifest that men and nations are not pulling together. That among the victors there appears as much resentment against the vanquished as there is resentment on the part of the vanquished against the victors is an unpleasant discovery, and Americans have returned home with the conviction that, quite as much as the material effects of the war, the existence of an overwrought and unhealthy state of mind is delaying Europe's normal progress of reconstruction.

Bearing of Foreign Affairs on Us

HERE, of course, is a problem with which the United States as a nation cannot directly deal. But it is a problem which directly concerns the United States, for the return of prosperity to this country counts upon trade with Europe and, plainly, trade cannot be established on a firm basis until there is a return to a wholesome and normal evolution of society. The responsibility, if it rests upon any group at all, rests upon Europe's leaders of business and finance. They have an obligation greater than at any time before, and the sooner they recognize it, and assert their responsibility over that of the politicians and those others who are preaching in every country the propaganda of hate and suspicion, the sooner will matters mend. "The world is sick and the politicians of Europe give it no opportunity to get well" is the bitter statement attributed to Hugo Stinnes, Germany's remarkable industrial leader, in a recently published interview. An analysis of European politics would be out of place in this discussion; still, the reasons underlying the remark of Herr Stinnes—and that remark is not strictly partisan inasmuch as it is echoed in France, England and Italy, as well as in Germany—should warrant close study in the United States. For we must appreciate that national and class feeling, fed by politics and inflamed by propaganda, can be made a more definite factor in Europe's troubles even than it is, and, free though we are from Europe's politics, we cannot consider ourselves free from the effect of her troubles.

Our Economic Relations Oversea

WHETHER we like to think so or not, Europe is a major influence in the determination of our future welfare, and we cannot miss the logic of the existing situation, or ignore the conclusion that from the point of view of our own selfish interest, if from no other, we are vitally concerned in the return of normal conditions abroad. As a nation we have set ourselves definitely against political interference in foreign affairs. But that need not hold us, as a party having a large business stake in the affairs of the world, from gaining an accurate knowledge of the countries, the people and the facts we have to deal with, and from exercising our economic power for the world's betterment. Nor need it prevent us from widening our vision and adapting our economic course to the fundamental principles upon which progress must be based. Europe's leaders maintain that the United States is absolutely necessary to Europe's recuperation; as for ourselves, with tremendous obligations outstanding in Europe, and with a tremendous productive capacity seeking employment, we know that Europe's recuperation is necessary to our welfare.

The solution of every great problem which the human family has ever faced has been, after all, through the conciliation of opposing ideas and the cooperation of all the members of the family for the common good. "When all is done," said Herbert Hoover in an address at Boston on July 12, "the real cure for all depression is courage, applied intelligence, and the return to primary virtues of hard conscientious toil and economy in living." It is such a cure as this for which Europe stands in present need; when the cure is applied there will be no mistaking of the good effects.

Sooner or later the direction of the countries abroad will become clear; if, pending that time, we gain a knowledge and vision of their affairs, and exert our strength for their correct solution, we shall properly prepare for the inevitable forward swing that must come when reconstruction gets truly under way.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, November, 1921.

THERE is a general conviction, supported by the events of a number of weeks past, that definite betterment has taken place in the business outlook. A seasonable demand for goods and an improved operation of manufacturing plants, together with a tendency toward easier money and a release of some of the so-called frozen credits: these are accepted as evidences which show that the worst of the reaction is past.

The improvement has brought a very welcome change in the tone of business predictions, and these in turn have contributed materially to restore the confidence that was shattered by the severity of the readjustment from our post-war prosperity. Idleness on the part of hundreds of thousands of men still exists to remind us of the serious nature of our economic ills, and all signs point to a continuance of the "unemployment problem" for a considerable time to come. But it is an encouraging fact that the problem is not as intense as it was. Employment is increasing, the improvement being determined by the rate at which business confidence is being restored. More hands could admittedly be employed were not production being held carefully within the bounds dictated by demand. The speculative orgy which culminated last year in disaster to those who were holding goods for large profits taught a lesson that has not been forgotten, and goods being produced are being sold before new commitments are made.

Encouraging Features of the Situation

EMPLOYMENT of labor is governed accordingly, for it is recognized that no permanent good would come from any organized attempt to whip business up beyond the really conservative and sane rate which existing conditions warrant. Industries which are fairly well liquidated are seeking an advantage from the improved state of business affairs, and are planning enlarged operations on the current basis of wages and prices of materials. But it is still recognized as necessary to study the conditions of supply and demand in each particular industry, and to determine the degree in which that industry really is liquidated. More than that, it is still recognized as necessary to determine the relation of each particular industry to the broad economic forces at work—forces which are the outcome of the war that disrupted business relations, and of the peace that was to have started the work of restoring those disrupted relations.

Up to now the reaction from extreme depression has not, it is true, expressed itself in any exuberant demonstration. Still, we are all optimistic by nature, and a disposition to assume that all of the country's business troubles are over is bound to grow if that disposition is encouraged. Indeed, the old doctrine has lately been preached again that all that is necessary to bring prosperity back is to "think" prosperity. On this subject a bit of advice that has come to us in the mail from the west is worth keeping in mind. It is:

> "Keep faith, take a renewed hold on confidence, work hard; but maintain a sharp lookout, beware of false hopes, and do not mistake the mirage now visible on the horizon for a land of ease and plenty wherein there is neither responsibility nor peril to be met."

Among the brightest signs of the times is the appreciation which is shown in every branch of business of the need for cooperation to bring about a restoration of prosperity. The minds of the American people are working normally and with a definite objective in view, that objective being a thorough business adjustment upon which may be laid the foundation for another period of true national prosperity. Until a very little while ago this was not so; there was a confused belief that deflation could be limited to a reduction in dividend distributions and a lowering of merchandise costs. Producers, manufacturers, merchants and carriers were called upon to cut the commodities they had to sell to a price level that was "fair." But the great consuming public, having lived through several years of intense inflation, was ready to accept nature's law of action and reaction only as that law operated against others and for its benefit.

"Liquidation, reorganization, readjustment, reestablishment . . are a part of the inevitable," said President Harding in a recent address, "and he who thinks they might have been avoided only hugs a delusion." The delusion, it would appear, is at last being dismissed by the country at large, and a reassuring view is given to the whole proposition of deflation by the acceptance of the adjustments which have thus far been made. Unemployment and curtailed business have had a salutary effect, and those false hopes which prompted the withholding of readjustments in wages and terms of employment, and which similarly stood in the way of orderly price adjustments, are rapidly being left behind.

Importance of Stability At This Time

IF one were asked to write in a single word a prescription which might serve as a corrective for all the world's present ills, he would write Stability. In both a social and economic sense, Europe is regarded as the seat of the world's present troubles, and American business men who lately travelled abroad have for the most part returned home depressed by what they learned. They have had spread before them all the evils that are the outcome of the war and that have been intensified by the faultiness of the peace treaty. They have seen Europe, so to speak, in eclipse, and it is no wonder that so many have given voice to their depression, and occasionally gone to the extreme of prophecy. "Europe's civilization is slowly disintegrating," was the statement attributed to one returning traveller, and widely published in the newspapers a few days ago, "it is headed straight for a smash."

History has no counterpart for the economic conditions now prevailing, and there is no one who does not realize that the world stands today at one of the great turning points of its career. Stability is to a notable degree being restored in the United States, but in Europe it is lacking in finance, production and distribution, and worst of all, it is lacking in the minds of the people.

Bright and Dark Aspects of Situation

THE picture is not a bright one, yet any normal being with a spark of confidence in mankind and an insight into the forces which make for progress, cannot truly believe that those disintegrating forces now in operation will be permitted to continue to the limit predicted by those who despair for civilization. He must feel that what is being suffered is after all but a phase—a tragic phase, it is true, but one to be followed sooner or later by a new and better one. Every student of history knows that devastating wars of the past have been succeeded by periods of black despondency, by prophecy of universal bankruptcy, and by announcement of the collapse of civilization. At the same time, every student of history knows that wars of the past have been surmounted, that even beggared nations have risen from their war ashes to new glories, and that civilization has gone forward.

In every season of confusion and doubt it is well to search the past for parallels, and he will renew his confidence who goes back to his forgotten boyhood books and reads the story of the American states after the revolution, the story of England after the wars with Napoleon, the story of our own South after the Civil War, the story of France after the German invasion of 1871. Necessity to regain a grievious loss faces the world, and though the extent of the damage wrought by the war outranks any like thing the world has ever known, and though the difficulties of after-war reconstruction are tremendously complicated because they are *international*, where formerly they were for the most part simply *national*, every calm thinker has an abiding assurance that in the long run a way will be found out of the world's difficulties.

Need of Peace, Confidence and Credit

WE have signs even now that point toward a better day: Russia casting the hulk of communism adrift and returning to capitalism; Germany seeking to hold together while she assumes her war penalties; France restoring her ruins and striving to take her old place in the world of trade; Belgium and Italy reestablishing their industries; Britain extending herself again to the furthermost corners of the earth. These are tangible things, not to be ignored; were they marked by a spirit of mutual sympathy and help, there is no question regarding the speed with which they would start the process of recovery.

However, the corrective that is signified by the word Stability is still to be applied. Stability involves first a rebuilding of destroyed confidence, and second a willingness of the people of every leading country to trade with one another again on the basis of credit. Put thus, the corrective sounds like a simple one. It is not simple; it is the most complex that has ever been faced. It would be complex even without the persistent interference of political action in the economic field of Europe; it would be complex even were finance to gain an immediate mastery over the existing suspicions and hatreds which keep open the wounds left by the war and which hold Europe prostrate.

It would appear, then, that what is starkly essential is some sort of economic unity that will operate in every civilized country sufficiently to restore the basis of faith and credit. A prerequisite to this economic unity is a statesmanship which will set out to give Europe

1. *A restored peace of mind which will conciliate hostile purposes and provide a mutual understanding of the tasks that are ahead.*
2. *A clear-cut accounting of the assets and liabilities of every nation, which will enable a definite adjustment of the obligations of each to an amount it really can meet.*
3. *A balancing of government expenses by taxes, and an ending of the progressive and reckless debasement of the currencies.*
4. *An establishment of mutual relations so that loans can be made with safety, and so that credit will re-start the wheels of peace-time industry.*

The Washington Conference

IS it too much to hope that a step toward the kind of statesmanship referred to will come out of the disarmament conference that is to be held in Washington this month? Mr. Lloyd George, in an address at Inverness on October 4, said of the conference that "if it is wisely approached and conducted in a broad, courageous spirit, it will constitute one of those outstanding events which should affect human history for generations to come." Scanning world affairs, intelligent observers cannot help but appreciate the deep truth of the British Premier's statement. At this time, American business men and bankers hesitate to encroach upon a field they feel to be political, but, fundamentally, economic forces were responsible for the call for the conference, and hence it does not seem improper to ask that the conference review those difficulties abroad which cast a deepening shadow over the world, and which handicap the business of production and distribution to such a degree that millions of people are at the present moment deprived of the opportunity to work.

The original objection to bringing financial problems into the Washington conference was based on the feeling that the program already outlined was so complex that those in attendance must of necessity limit themselves to a few questions, and not seek to open for debate an entire series, which, failing of settlement, would make it appear that the conference had failed. We hear it said over and over that a failure of the conference would be a disaster to the democracy of the world.

What the Conference Might Lead To

THE conference will no doubt be dealing with strange and fragile material, but it would not necessarily fail because it took up for consideration those financial conditions which have been left as a legacy of the war. An immediate betterment of all of those conditions is beyond human ability. But what is not beyond human ability is the initiation of a movement out of which might come a concrete plan for a joint assault upon those economic evils which are confounding the world and which are standing in the way of a return to health. Even if the conference did no more than set forth the terms on which progress must be based, so that others might take up the details and follow the instructions of those terms, a beginning of the huge task of world reconstruction would be made, and the example of constructive statesmanship thus supplied would give heart to business men and bankers everywhere.

Question of Germany's Position

MORE than at any time before, the world's financial barometer is the movement of international rates of exchange, especially with respect to Germany. It had been expected that the depreciation of the European exchanges would begin to correct itself long ago, but to date we have had no single recovery to the old parities. Instead we have witnessed extraordinary and perplexing fluctuations in the rates for the pound, franc, lire, crown and mark.

As for the German mark, fluctuations here carried it lately to little better than one-fiftieth of its former exchange value. Political considerations had something to do with this; the separation from Germany of a part of Silesia, followed by the downfall of the Wirth government, intensified pessimistic views regarding German political affairs. But so far as the rates of exchange are concerned, these circumstances only complicated a situation already made acute by the steady and ruinous debasement of the German currency through the printing of billions of unsecured paper money.

Ostensibly because of the inability of the German people to pay taxes equal to more than one-third of the government's ordinary expenses, and in order to meet the initial gold payments required by the reparations agreement, the German government has turned out paper marks from its printing presses in defiance of all accepted monetary principles. Paper marks have been literally sold in bulk to the countries of the outside world, in order that gold might be provided, and the weight of this new paper money has driven the rate of German exchange to a level so low that one American dollar, having a gold base, was exchangeable at one time in October for 192 German marks which have no gold base.

Gold or Commodity Payments

WHOLLY apart from the question of the ultimate effect of Germany's indemnity payments on the finances and trade of the world, there is the question now to be considered of the effect on exchange rates of further gold transfers, if such transfers are arranged as were those earlier in the present year. A payment of 500,000,000 gold marks to the Reparations Commission is scheduled for December 1st; if secured in exchange for paper at the lowest level recently quoted, this would involve the printing of something like 22,000,000,000 paper marks. The impending payment against the claim of the 26 per cent export tax imposed upon Germany, secured in the same way, would mean a still further output from the presses.

Despatches from abroad suggest that instead of further gold payments, Germany will be permitted to deliver materials to the countries in whose debt she stands, up to a value dictated by the Reparations Commission. Such an arrangement would remove a weight from the exchange market, and while it would not necessarily bring about a recovery of the mark, it at least would take away one element that has contributed to its debasement thus far. A compromise in the matter of gold payments would not be a compromise in the larger matter of the indemnity itself—such a compromise, to be considered at all, would require most earnest attention, for into that subject enters the financial condition of France and the other countries which are basing their budgets on the expectation of Germany's discharge of her liabilities. Into it, too, enters the whole question not only of the future of international finance, but of all political relationships. The question of the indemnity is for the future to settle; for the present, in the matter of payments by Germany in metal as distinct from commodities, the test to be applied is whether the 60,000,000 people of that country, with their currency and credit collapsing, could go on producing values out of which ultimately the great bulk of the indemnity, represented in the reparation bonds, is to be met.

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OF THE CITY OF NEW YORK

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OF business sentiment as defined by the incidents of the closing weeks of the year, it may be said that there is a prevailing atmosphere of hopeful expectation. Actual volume of current business, apart from that which is distinctly seasonal, is not large, nor is there any indication that a robust trade revival is in the course of development. As a matter of fact the country's commercial turnover is less than at the corresponding time in any of the past six years, yet a spirit of optimism marks the predictions which are being made for 1922, and affairs generally are being shaped to take advantage of improvement that is expected.

Underlying the prevailing confidence is a consciousness that some of the most difficult steps in the progress of domestic readjustment have been accomplished. The fact that commodity prices have for the most part checked their long and painful downward course and have even, in special instances, improved from their lowest recent level, is accepted as a sign that the period of severest deflation has run its course. A reemployment of a part of the army of men made idle through lack of work, an adjustment downward of wages to a level more in line with the scale of prices, and a relief from the menace of perennial strikes are factors which have helped to bring about a hopeful attitude; in addition there have been the evidences of progress toward cheaper transportation and lessened distribution costs, toward more equable distribution of taxation, and toward a scale of expenditures, both private and governmental, far removed from the extravagance that was lately rampant.

The security markets have measurably reflected the significance of this list of developments, and bonds and other high-grade investment issues have scored substantial advances. There are those who see in the broad and active demand that has developed for investment securities an unfavorable sign, as meaning a withdrawal of funds from the hazards of commercial business and their employment in securities of assured strength. But the majority of observers have chosen to see in the present activity and rising prices a consequence not alone of lower money rates but of a returning courage on the part of investors who lately were not certain regarding the future of securities, and who now believe that readjustment has progressed sufficiently to warrant conservative buying.

Not long ago bonds of excellent description were quoted on a basis to yield 7 per cent and better; these same bonds at current quotations return less than 6 per cent, while United States Treasury short term certificates have recently been marketed on a basis of 4¼ and 4½ per cent. Especially noteworthy of the change in the situation is the improvement that has occurred in Liberty Bonds. The largest issue of these, the 4¼ per cent bonds of 1918, which was quoted at 85½ early in the present year, was within 2½ points of par at the close of November.

Effect of the Washington Conference

IT must be said that apart from the immediate considerations of business and finance, general sentiment is being influenced at the moment by considerations which are not directly related to the flow of trade, but which have first of all a social and political significance. Especially does this apply to the international conference for the agreement on a limitation of armaments, now in session at Washington. A successful consummation of this conference is expected to have a far-reaching effect, for it will mean a long step toward not only the moral but also the financial regeneration of the countries which have suffered the most as a consequence of the war. There has been a minimum of delay in the conference, and the readiness of the delegates from each of the countries to cooperate in attaining the great ends sought, putting to the proof both their good faith and their good will, has built up a hopefulness regarding the future that is in refreshing contrast to the depression that was so prevalent up to a short time ago.

When it is reached, the agreement on the limitation of armaments will at once lift from the back of business a considerable part of the burden of taxation that now crushes initiative and industry. This statement holds true as well with the United States and the other strong countries as with those that are weak. For Great Britain it is freely admitted that a substantial reduction in military and naval expenditures is the only method by which that nation can obtain a budget surplus in 1922. Economy in the matter of wasteful government expenditures will mark a definite advance toward that condition of stability out of which the world's era of reconstruction is to come, so that, beyond the simple consideration of what disarmament may mean to the American tax rate next year or in the year following is the effect on the other countries of the world, the revival of whose business we are counting upon as an element in the restoration of our prosperity.

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Present Position of the Money Market

A LOWERING of money rates is customarily taken as an outward symptom of an accumulation of spare funds which banks desire to put into effective use. Hence the recent progressive decline in money rates has been made the basis of a great many suppositions and suggestions regarding the policy of the banks throughout the country in the coming months. In spite of what a lowering of rates has customarily been taken to signify however, there is little present evidence that banks are reversing their policy of careful lending which they have maintained for more than two years.

A combination of extraordinary gold imports from abroad and a steady liquidation of loans in certain parts of the country accounts for the decline in rates that has occurred. Since the opening of 1921 the net addition to the gold supply of the Federal Reserve banks has been $800,000,000, the great bulk of this addition having been accountable to imports from thirty different foreign countries. At the same time that this gold has been pouring in to swell the metallic base of the country's currency, the volume of that currency has been shrinking steadily, while the loans rediscounted by the Federal Reserve System for the commercial banks of the country have been reduced by more than half.

The Curtailment of Credits

SO far as the curtailment of credits in the present period of deflation is concerned, it cannot be said that lower discount rates at New York reflect an orderly and even curtailment in all sections of the country. They do reflect for certain parts of the country a successful liquidation; for the East in particular they indicate that commercial and industrial loans have been decidedly reduced. In the producing sections of the West and South it is true that deflation of prices has proceeded very far, but deflation of debts has not kept pace with that of prices. Hence a large amount of what is termed "frozen credit" still stands on the books of the interior banks, and the process of deflation has seemingly struck hardest here, inasmuch as those efforts which have been made to bring about credit restrictions have contributed to force prices downward so far that fresh amounts of frozen credit have been created.

At current market prices many of the agricultural producers, according to the statements received from the West, will hardly break even on this year's operations, and the difficulty of the situation lies, therefore, in the inability of these producers promptly to meet their demand obligations. In the cotton states the relatively high price of cotton has brought some cheer, but even there the uncertainty of the demand for the year's small crop has made it difficult to count upon any rapid liquidation of debts. In the West the prices of grain and cattle are half those of a year ago. Grain raisers who had expected to pay their notes with two dollar wheat find wheat on the farm worth less than one dollar, and their paying ability is thus lost. Reports from the Middle West tell of corn having sold as low as 20 cents a bushel on the farm, and of mutton having sold at 3 cents a pound on the hoof. Quotations at western primary points are so low that in some instances farmers, instead of burning coal, are using corn for fuel.

Low Agricultural Prices and Bank Credit

UNDER these circumstances, a great number of farmers, planters and cattle raisers have called upon their banks to extend into next year the loans which have already been several times extended, and which were to have been paid off with the proceeds of this year's earnings. The position is one in which the liquidity of many small banks has been temporarily impaired in the interest of their customers, for to force the farmers to sell their products would mean a fresh decline in agricultural prices and a further lessening of the strength of their customers. This position is of course not a comfortable one for the small interior banks, neither is it comfortable for the corresponding banks in the reserve cities where a portion of their loans have been discounted, or for the Federal Reserve Banks, a majority of whose present discounts (other than those secured by government bonds) are for agricultural sections. It means that by extending old loans, the local banks, in those parts of the country chiefly affected, are not able readily to increase their accommodation to new borrowers. It means, moreover, that they cannot readily cancel the old indebtedness to their correspondent banks in the larger communities, or to the Federal Reserve banks, or call upon them for increased discounts.

So, then, while rates quoted at New York for money are the lowest of many months, the implication of these rates is not that of general money market "ease." Nor can the implication be one of a changing loan policy on the part of the banks of the country. Declining rates will not mean the immediate removal of the restraints which banking prudence have dictated for many months past in the extension of credit, nor will they mean this so long as deflation of indebtedness is necessary to the healthy condition of business, and so long as freer credit involves a renewal of inflation, speculation and a corresponding price-booming.

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Where We Stand in Readjustment

WE see now, in a new perspective, what difficulties were stored up for the country during the period of rash inflation that we chose, from 1915 to 1920, to call a war boom. Deflation from a condition such as the country stood in two years ago has shown itself to be at best a hard performance. The principal difficulties have arisen from the disproportions that were brought about and by the manner in which these have thrown affairs out of balance at a time when stability was needed more than anything else.

Moreover, other difficulties have arisen from the inability of the entire world to shape its business course in the same manner as the United States has done, and from the unbalance of the international exchanges that has drawn so much gold to the United States. Our whole banking and credit system, and our position as an international financial leader, are affected in a peculiar and perplexing fashion by the quantity of gold that fills the vaults of the Federal Reserve banks at this time. There is no apparent likelihood of an early cessation of the import movement; the inward flow is because of our enormous foreign credit balances and because of the present inability to correct the chaotic condition of the international exchanges. Coming from the four corners of the earth, and part of it virgin metal fresh from the South African mines, we have constantly to be reminded that the present supply of gold cannot be indefinitely retained here, but must be regarded in the nature of a trust fund for those nations which, when financial order begins to be restored, will require it.

We need to have it repeatedly called to our attention—even though we are in the midst of a period of deflation—that should we reverse our present course and inflate our credit system to the extent which would ordinarily be warranted by the growth of our ownership of two-fifths of the world's gold, the outcome would be to make it difficult to part with any of this stock of metal when the time comes for exports. With credit extended and prices inflated, we might then find ourselves in a position from which we could emerge only by again going through the process of violently curtailing credit and forcing a collapse of prices.

Our business structure at the moment is unquestionably nearer to a wholesome condition than we could, two years ago, have hoped for. Yet it is still to be determined how far we have proceeded toward that degree of stability from which a forward movement, on healthy, orderly lines, can confidently be counted on. It is seen that in the south and middle west the most important problem today, two years after the beginning of deflation, is the matter of shaping the course of debt reductions so that, while bringing about the smallest amount of individual harm, it will result in the greatest amount of general good. Relief for the producers is no longer to be expected from a policy of liberal extensions of credit for the purpose of enabling commodities to be held off the market in order to secure increased prices. Such a policy, carried too far in the past, has had consequences from which the country is now suffering. Rather, relief is to be looked for in the lower prices of the commodities the producers must buy, and in such reductions in transportation and distribution costs as will have the effect of enabling them to market their output at a profit.

Prices as Affected by Economy

THUS it is seen how the farmer's present condition of price-deflation but not of debt-deflation has its direct bearing on the prosperity of the entire country. After all, the farmer represents the greatest single buying class in the United States; virtually half the consuming power of the country rests on him. The farmer is postponing purchases now, not because of any wilful refusal to buy, but because of his limited financial ability, due partly to his wilful refusal to sell at high prices when he had the opportunity. The story is told of a Missouri farmer who said a few days ago: "I priced a hat for myself and it was $7.50. That meant 37 bushels of corn, a full wagon load. The hat I have on cost me 4 bushels. It will have to last through the winter."

Here is a type of argument that must be taken into account in all our discussions of deflation and in all our prophecies of a general trade revival. In the same sense that economic forces have hurt the farmer's purchasing power they have hurt the purchasing power of all of Europe; as with the farmer, so with the customer abroad; his available resources are not sufficiently abundant to enable him to liquidate his old indebtedness, neither are they sufficiently abundant to permit buying in a lavish spirit that would mean boom times for the industrial parts of the United States. So that, by "cutting their patterns according to their cloth"—which means small purchases—the buyers of our industrial output, both here and abroad, are gradually forcing the existing disproportions to a scale out of which eventually will come a degree of stability that will be a basis for a new forward movement.

Need of Increased Buying Power

IF the buying power of our farmers and our foreign customers is not largely increased by widening markets and advancing prices of what they have to sell, stability in our industrial markets will have to come by means of conditions which will bring goods within their buying power, wherever that is. This, obviously, will be by means of an adjustment of production costs, by means of lower money wages and higher labor efficiency, and by means of cheaper transportation and distribution costs.

Encouragement that these changes are in the way of being effected is given by the new state of mind that is coming to prevail generally. During the early and middle part of the deflation period through which we have passed there was a popular misconception of the meaning of deflation, the public taking it to imply a downward adjustment of prices for the public's advantage, without a commensurate reduction of income. The fallacy of this was not recognized at first, and for a considerable time economic reasoning which showed this fallacy was brushed aside. So it was left for hard experience to bring home the truth that deflation means something more than sacrifices on the part merely of those who own and operate enterprises.

There must be a fair remuneration of capital and management if those two elements so necessary for production are to be forthcoming: the logic of this economic truth has been so repeatedly demonstrated of late that wage-earners are now far more ready than before to accept it. This accounts for the adjustment downward of wages in such a measure that many industries begin again to see an opportunity to operate profitably at prices which consumers are able and willing to pay for the goods and services rendered.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, January, 1922.

AS the year opens, men are hopeful for 1922 according to the degree in which their optimism, backed by the progress that has been made in economic adjustment, overcomes the disquieting indications in current affairs. There are those who, placing their faith in a number of specific evidences of improvement which recently have manifested themselves, are distinctly confident of a progressive betterment during the new year. There are others who, reviewing the difficulty of the readjustments of 1921, are inclined to hold their confidence in check until they learn how far the prevailing evidences of improvement will carry. There are still others who, probing the fundamental forces which are responsible for the world's present troubles, are inclined not to be cheerful at all.

Generally speaking, the spirit of confidence predominates. Recognition that the United States is steadily moving toward economic health underlies much of the hopeful anticipation for the new year, and this is supplemented, in its good effect, by developments of an international nature. The signing of the four-power treaty at Washington, the favorable progress of the Disarmament Conference, the spirit of mutual helpfulness that appears gradually to be making itself felt among the nations, the wider comprehension of the need for breaking through the barriers which now hold foreign commerce back, the public appreciation of the economic and social questions which need to be solved, and the increasing insistence on their solution: these all have a large significance with respect to the future.

Looking into the future, it is far from an entirely happy world that is engaging the thoughts and plans of business leaders. Yet of all the signs of the times, perhaps a negative one is the most significant, namely, that it is no longer necessary to outline for thinking people how far economic confusion permeates every phase of modern life, and how difficult and prolonged will be the task of reconstruction. The world's troubles have come to be acutely appreciated, and now, in quite a different manner than a year ago, leaders of business and finance are being heeded when they name the remedies essential for prosperity. Those forces which were the world's legacy from the war make the path of recovery an uphill one; the disaster of inflated currencies and the breakdown of the buying power of millions of people abroad, together with the enormous burden of debts and taxes everywhere, occupy a very large place in determining progress in the present year. But at least an intelligent understanding of their meaning and a keen desire for their correction are worth counting upon favorably.

Prospects of Economic Conference

ALL the economic consequences of the war and the peace treaty have their bearing on American prosperity, and our dependence upon a removal of the obstacles which stand in the way of that prosperity is leading to a growing and sensible demand for an economic conference to follow the disarmament conference, with a view to dealing with the whole question of the business of the world.

In the interest of international fellowship, and to help a world that is ill, there is no better suggestion than that a general international parley be held, to include representatives not only of the United States, Great Britain, France and Italy, but also of those countries where the world's sorest economic spots are found. Just what a conference might accomplish remains to be settled; its success would depend in large measure upon where it was held. President Harding is reported to be unwilling to have a call come from Washington, taking the position that continental powers have many problems of their own to solve before this country can be of assistance. If a conference was to be held in the United States, this country might find it advisable, to justify itself for having issued the call, to make its stand known on the plans which have already been proposed regarding credits, exchanges, currency revision, taxation, tariffs and other problems coming out of the war and the Treaty of Versailles. If the conference was to be held in England, that country might find it advisable to make proposals in advance regarding not only these subjects but others, like the remission of international debts and the revision of German reparations.

What a Conference Would Involve

JUST how far the United States or Great Britain would be ready to go in advance is an open question. Success of a conference would rest largely upon the willingness of these two, the most powerful economic units in the system, to extend help to the weaker units. But if the conference was held on the Continent, and under the direction of the Supreme Council of the League of Nations, no single country would be committed in advance to any given policy, and the conference itself might therefore result in no more than a series of recommendations, rather than in definite agreements. Even that, however, would be a step toward financial order, and away from the existing disorder.

If it sought to deal only with the reasons underlying the chaotic exchanges, the conference would serve an immense amount of good. Not that the correctives are to be applied by merely talking about them—that is something the most sanguine optimist cannot expect—but at least there would come a better understanding of all the elements involved. Progressive debasement has brought about almost the extinction of a number of the currencies abroad; in addition to the familiar depreciation of the German mark, it is impressive of the extent to which countries have departed from sound banking practice to point out that the currency tokens of Austria, Jugo-Slavia, Hungary and Poland, not to mention Russia, have fallen in their relation to American values to mere fractions, like one-quarter and one-thirtieth of a cent.

Relation of Debased Currencies to Us

LOW as these different money tokens have fallen, to tens of millions of people in Europe they are today the currency of their trade, and, as such, the only currency these people know. Therein is a great tragedy. Even in the case of Russia, rubles are still used; because even thousand-ruble notes buy practically nothing, denominations of 10,000, 50,000 and 100,000 rubles are reported to have become the common change in use. In some countries dollars are coming to circulate in increasing amounts, while barter has been a substitute for money in many instances. Dollars are hard to obtain, and the population of the countries which are the most affected by all that has gone on is too great for the people to go all the way back to the primitive conditions signified by pure barter.

It is important that the significance of these relationships be clearly understood in the United States, for they have a very direct bearing on the purchasing power of a section of the world which has long been a buyer of American materials, and upon which we are counting in the future to restore that productive activity out of which is to come American prosperity. A conference which would determine means at least to stabilize the currencies so that foreign commerce might flow again in a normal way would be a boon to trade, for it is not alone the debasement of the currencies but their instability that has brought confusion. One day the American dollar may be worth 220 marks in Berlin, the next day 240, and the next day following 200. In the eastern European countries the variations are wider by far. Business there has become more or less of a gamble, bringing despair to the people.

Currency Fluctuations and Contracts

MODERN trade is built upon a system of credit, but under conditions which now obtain contracts for future delivery of goods or services, involving credit, are entered into with both parties to the contract blind as to the future value both of what is contracted for and what is to be paid. Merchants who buy goods are now expected to pay for their purchases without the assurance of any stable relations of value that will give back a profit or even their market cost. Prices which fluctuate 10 per cent or more in a single day, in tune with the varying exchange values of currency, have caused distractions which have extended beyond the merchants into every branch of society, paralyzing trade and putting a dead hand on the people's thrift. Farmers, manufacturers, clerks, day laborers—literally every one in the countries of chaotic currency—cannot measure from day to day the extent of their wealth or poverty.

Here is only one problem that an economic conference might consider; in its ramifications, however, it touches all the others, and even a single step in its solution—if that is at all possible now—will go part way to providing a solution of all others. Time will have to work out Europe's gravest problems, but if a sound leadership is provided which, by stabilizing currencies, will restore in some measure the buying power of 200,000,000 people, it will mean much to all the countries of the world, not least among them the United States.

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Country's Present Business Status

NARROWING our views to our immediate local problems, it can fairly be said that in spite of the shrunken export buying and the small purchases from the agricultural sections of the country, the industrial east is maintaining a favorable rate of activity. Prices are not holding firm in every instance, shading having taken place in the hope of inducing purchases. But on the whole, with producers and distributors fairly well liquidated, the situation is all that can be expected.

One of the striking features in the financial situation has been the continued wide-spread demand for investment securities. Buying on the part of investors doubtless accounts for much of the improvement which has developed, but in large measure easier credit conditions and lower interest rates are primarily responsible, and the relationship between the yield on bonds and the rates for money has led observers to watch the movement of the investment market attentively for signs of the trend of money conditions.

Outlook of the Money Market

THE cost of business borrowing is naturally a feature which is of particular current importance. Rates for money are the lowest of many months, but there is still wanting the evidence that low rates are a reflection of a let-down in credit restrictions on the part of the banks. There continues a general disposition to move with caution in the matter of extending new loans, in view of the extraordinary part that gold imports play in the situation, in view of the varying views on the business outlook, and in view also of the unevenness of the credit curtailments which have occurred throughout the country. The industrial east has made excellent progress in getting its house in order, but agricultural sections of the west and south continue to find banks carrying a heavy burden of frozen loans, the thawing of which is proving a slow process. Prices named for grain are so low in some sections that the farmers who sell are estimated to be receiving 65 per cent of their cost, accepting a 35 per cent loss on their 1921 operations and thus finding themselves in a hard position when it comes to meeting their obligations. Writing in the latter part of December from South Dakota, a correspondent bank reported such prices as 69 cents a bushel for wheat, 25 cents for barley, 19 cents for corn and 16 cents for oats.

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The Outlook for Taxation

THE country has been told over and over that it cannot have permanent conditions essential to business prosperity until government expenditures are greatly decreased, and until waste, extravagance and inefficiency are eliminated to the fullest possible extent in governmental affairs. Taxes, unequally distributed, are bearing disproportionately on different sections of the country, and stand in need of being lightened and corrected. Business men appreciate fully the drag imposed upon our economic system by the demand that billions of dollars be supplied every year to maintain the federal government, and are alive to that need. Hence their satisfaction in the good that has been accomplished by the Budget Bureau in pruning the expenses in government departments, and, further, their satisfaction in the promise of the disarmament conference to lift from the people a part of the weight of needless government expenditures.

Business men are keenly alive to the need of lightening and correcting taxes, but their satisfaction in the constructive measures under way is being chilled as they study the dispatches which come out of Washington, telling of the schemes for spending money which are to be presented before the present session of Congress. According to these dispatches, there are a number of projects which, if adopted by Congress, will total immense sums.

Effect of Government Extravagance

FOR every dollar that is spent by the Government a dollar must be provided by the people, either by means of taxation or bond subscriptions. Taxation, notwithstanding the attempts which have been made to provide a "scientific" distribution of its burden, presses with crushing effect on the business of the country. New bond offerings, however satisfactory their terms, would press with similar effect upon the credit of the nation, which already supports a public debt roughly equal to twenty-five times what it was before the war.

How far will business enterprise go if its expectations of profit are regularly dulled by enormous taxes? Up to a certain point of taxation, business can flourish; that point, as well as the point which governs the state of the country's credit, is something that needs now to be carefully considered. For, wholly apart from the special appropriations which Congress will consider in its present session, the United States Treasury has problems to face which will test its resources severely. It is estimated that the Government's ordinary expenditures for the fiscal year ending June 30, 1923, will be $3,505,000,000, against which the estimates of ordinary receipts, exclusive of postal revenues, are $3,338,000,000. Half this amount of revenue is allocated to the income and excess profits tax, to be taken directly from the people; the other half is allocated to internal revenue, customs and other forms of Government revenue, which, though representing indirect taxation, after all depend for their payment upon the already severely-taxed business of the country.

"Deficit financing" is rendered possible even on ordinary account. But the burden of the Treasury Department does not stop with ordinary account. In the course of the next eighteen months the Treasury must face the responsibility of refunding $6,000,000,000 of maturing obligations, made up as follows: Certificates of indebtedness, $2,000,000,000; War Savings Stamps, $500,000,000; Victory Bonds, $3,500,000,000.

The Need for Economy

WE are coming to be so accustomed to huge figures that even this enumeration does not sound impressive against others which appear in print in connection with the finances of other governments. Moreover, debt financing is expected to be a problem of our Government through the life of the present generation and possibly other generations to come. However all that may be, one cannot miss the significance of the fact that the interest charges on our debt are now so great that every year they equal our entire national prewar expenditures, while our ordinary Government expenses run far beyond any sums imagined up to a few years ago.

A gradual cancellation of government debt through redemptions out of current revenue is something that forward-looking people have been hopeful of. Prospects of relief from armament expenditures have stimulated this hope, but the savings in sight are in danger of being swallowed up, and more than that, we are told that the prospective reduction in armament appropriations is already being used as an excuse for extravagance.

So, then, as one commentator has put it, "the question now becomes intensely practical whether we shall determine to follow the path of solvency through the application of principles of rigid economy, or return to inflationary policies and employ our better borrowing power to meet the renewed demands of those who want subventions." An answer to the question, if it is to be in the interest of economy and sound finance, will have to be given with the help of the business interest of the country in opposition to those "liberal spenders" who see in the United States Treasury an unlimited reservoir, that needs only to be tapped to yield a handsome return.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, February, 1922.

CONCENTRATED attention is being devoted throughout the United States upon the farmer's place in the country's social and economic scheme. A realization, delayed but none the less agitated, of what President Harding has called the "grim reality of the present crisis in agriculture" is responsible for this; made poignant by its direct reaction on the whole industrial and mercantile situation and on the general structure of credit, the farmer's ill-fortune has become a subject of eager national interest.

The farmer's ill-fortune, however, unlike its general recognition, has not been a matter of overnight development; it has been a feature of increasing significance over a period of nearly two years, or since the prices of foodstuffs began their long downward sweep in 1920. Like the hardship which has been an almost universal feature of industry and commerce in the post-war readjustment period, the hardship of agriculture has been attended by overproduction, collapsed markets, blocked distribution and low prices, and has made the lot of the producer a particularly hard one. This applies alike to the corn and wheat grower of the middle west, the cattle producer of the western range, the cotton planter of the south and the potato farmer of New England.

Where Help for Farmers is Sought

IMMEDIATE solutions for the plight of the farmer not having presented themselves in other directions, they have come to be sought in legislation. Following the organization in Washington of a powerful "agricultural bloc," made up of senators and representatives who, breaking all party lines, united for the avowed purpose of helping the the farmer by legal enactments, a nation-wide conference of agricultural leaders was held in the closing week of January, under the auspices of the administration, for a like purpose. President Harding, addressing this conference on Monday, the 23rd, urged with particular emphasis that the farmer was now entitled to support and assistance not only for his services of the past, but because of the danger that "if we fail him we will precipitate a disaster that will affect every industrial and commercial activity of the nation."

No great emergency has ever arisen in which the champions of the sufferers have immediately come to agreement on precisely the right course to pursue in meeting that emergency. Human nature and human instruments being what they are, perhaps no absolutely right solutions ever will be provided without test and trial. But this does not altogether explain the divergence in the methods to meet the present emergency which have lately been sought, for example, by the agricultural bloc on the one hand and the bankers and business leaders of the country on the other. The bloc's method has been to seek a change in the system of banking control; it has been, further, to seek means for the creation, in the interest strictly of the farmer, of more credit and more currency, and for the renewal on a large scale of inflation. The method of the others has been to plan to strengthen and supplement the existing commercial banking system, to equalize the prices of what the farmer has to buy and what he has to sell, to develop better marketing methods and transportation facilities, and to reopen the channels to the outside world for America's surplus goods.

A rough enumeration of the causes of the present agricultural difficulties can be made as follows:

(1) Farmers who bought land at a valuation based on prices two and three times what the market rate now affords cannot make ends

meet; (2) prices of farm products have fallen much further than the manufactured articles which the farmer must buy; (3) high costs of transportation have forbidden the shipping of much of the farm output; (4) the disordered markets of international exchange have blocked a profitable foreign outlet.

Legislation as an Immediate Cure

IT is against a background like this, calling for wisdom and sympathy and for special study in order that correct solutions might be provided, that the course of the agricultural bloc in Congress has thus far been to legislate for the appointment of a farmer on the Federal Reserve Board, and to seek means for the release to agriculture of an increased amount of banking credit. In analysing these measures, it ought to be obvious that the direct and special benefit to the farmer of having one of his particular kind occupy a place on the Federal Reserve Board would be a remote one. The fundamental requirement of this body, in its national service, is that it shall serve only in a judicial and non-partisan capacity, serving the welfare of the country as a whole and not that of a single group or class. The farmer has not had a special advocate on the Board in the past, yet he has benefited from the Federal Reserve system as much as any other, and fully as far as that system under existing laws could benefit him. According to a report made to Congress on January 20 by a joint commission which investigated the country's agricultural affairs, the bank loans to farmers during the late period of expansion were relatively greater than to other classes, (with New York providing much of the credit used in extending agricultural accomodations), while during the period of acute deflation neither the Federal Board nor the Reserve banks took any action which caused a greater curtailment of agricultural lines than others.

The Freer Use of Credit

AS for the freer use of credit, it is recognized on every side that there is a gap between the facilities for short and long time agricultural credit, as provided by existing agencies, and that constructive amendments of the Federal Farm Loan Act, to the end that this gap may be bridged, are required. Manufacturing and commerce have in the past been afforded facilities for their encouragement and expansion to a greater degree than agriculture, the commercial banking machinery of the country having from the outset been constructed chiefly on lines laid down by their financial requirements. The farmer, to be sure, has had recourse to this machinery, but with his turnover period a long one—at least a year for any crop, and two or three years for livestock—he has regularly found himself in the unfortunate predicament of seeking working funds under commercial banking methods, borrowing for short periods and renewing his paper several times before his turnover was possible. So that he has had to take the chance, as President Harding put it in his address on January 23, that if he were "called upon untimely to pay off his note he might be compelled to sacrifice growing crops or unfinished livestock."

Where the Farmer's Loans Now Stand

THE farmer needs to have provisions adapted to his requirements, so that long time credit will supply him with working funds. But as regards the immediate release of a large sum of banking credit, it is obvious that low money rates and overabundant bank loans just now would help the farmer only as they inaugurated a period of secondary inflation. This, to be sure, would raise the prices of the goods he has to sell, which is what he desires. But it would raise the prices as well for the goods he has to buy, which is the last thing he desires. Moreover, what requires to be emphasized today is the condition of current farm indebtedness, as compared with the farmer's ability to meet that indebtedness. The commission referred to above, on the strength of its investigation into agricultural conditions, pointed out to Congress in its report of January 20 that farm indebtedness in the United States has doubled in the last ten years, while the late drop in prices has had the effect of again doubling this indebtedness. So the question which logically presents itself is whether the farmer's pressing need at the moment is after all for freer credit. A letter received by this bank from the cashier of a farmers' bank in the middle of North Dakota has an interesting comment on this. It says:

> "Before election every man at Washington is talking 'how to aid the farmer.' The dream seems to center around how to loan the farmer money. He owes too much now. He can't

> pay interest on what he owes, live like a human being and break even, to say nothing about reducing the principal of his debt."

The term "frozen loans" has become so familiar throughout the agricultural sections of the country that in itself it would appear to signify the current need to be less for a means to enable the farmer to plunge deeper into debt as for a means to cancel old loans and get free of debt. Our correspondent quoted above, having his faith elsewhere than in credit schemes, would deal with existing troubles in another way, more directly. He writes:

> "It doesn't take a statesman or a near-statesman to figure it out. If Congress wants to do anything, let it put a minimum price on the farmer's products. Let that price be high enough so that a farmer who is a good manager can live, pay his interest and reduce his principal each year, but not so high that it will work a hardship on the consumer."

The agricultural bloc and this individual, while divided as to methods, are after all in agreement that special laws should be enacted in the interest of farmers as a class. The error in each case is fundamental, and lies in this: *that the funds of every other class are expected to be drawn on especially to prosper one single class.*

Conforming with Economic Laws

IT is this error which ought to stand in the way of the enactment of any laws which prefer the claim of a special class over the claims of all others. This statement of course does not apply solely to agriculture; the readiness with which legislators at Washington have rallied to overcome, by enactment, the plight of agriculture, has not failed in its effect on other industries, and producers of coal and other raw materials suffering from low prices and narrow markets, manufacturers in fear of foreign competition, exporters with their trade opportunities paralyzed, ship operators with idle boats, ex-soldiers out of work—all are now making out strong cases for Government assistance.

The war left may evils in its wake, and we are finding that not the least of them is an inclination to call for special legislative help, in every emergency, which stands in sharp contrast to the rugged American independence of other years. Legislation for the benefit of certain "essential industries" was considered inperative during the war; it violated foundational economic laws and its defense was solely that it met an emergency in which the life of the nation was at stake. The life of the nation is not threatened now, but because a great number of people see in Congress a possible miraculous power to overcome their present distress, whatever its cause, legislation is demanded, and the demands are powerfully supported, to reinject the Government into business.

In politics it is at best a disagreeable task to oppose a large group of one's constituency, and members of Congress, when looking ahead for reelection, have always had, and presumably always will have, a human failing of voting as they think their action will affect such reelection. Perhaps this is a cynical way of referring to what has come to be a recognized and accepted condition of democratic government, but events at Washington just now are especially forcing this condition to the notice of the general public. It would appear that more than ever education along right economic lines is necessary today—education, that is, not alone of ignorant people, but of sincere, earnest and conscientious people, congressmen among them, who do not properly appreciate the reasons underlying existing conditions, and who look to legislation for artificial relief.

Where Danger as to Class Help Lies

THE war was a great cataclysm, and the recovery from that cataclysm is proving painful and in many individual cases disastrous. It is altogether right under the circumstances that every proper effort should be put forth to make the transistion period as easy as possible, and with respect to the farmer every right suggestion for his benefit should now receive generous attention. But every student of political history will agree that a renewal, on a large scale, of the war-time interference with economic forces would only postpone the restoration of a normal condition in agriculture, industry, trade and finance, draw out the period of readjustment, and intensify the pain that is an inevitable part of readjustment. It is not only that legislation which singles out an individual class for special privileges while denying them to other classes is unsound as an economic principle, but it is dangerous politically as well. For if the policy were to be adopted that any special class should now be singled out for special privileges, it would only follow in time that the principle would have to be adopted for other classes. Following the farmer would come the wage earner, with particular reference to the ex-soldier. Then justice would demand special favor for the manufacturer, and it would only be a matter of time when, through pressure, special privileges would have to be granted the exporter, the merchant, the rail-carrier, the ocean shipper and every other special interest or group which has suffered under the blow of post-war reaction.

Sources of the Country's Prosperity

NO solutions for economic troubles will ever permanently succeed that are not in agreement with basic economic laws. In the present emergency, as it has been stated before, the great trouble is that people are looking for a miracle to happen, and for prosperity to come back at a single jump. Sound prosperity will return to the United States in accordance with the operation of basic economic laws, and what those people who now are calling for political help for industry should be made to appreciate is that what they are seeking is an interference with the operation of those basic laws, as they work the country out of a situation which is the aftermath of the war.

Help for present conditions, with respect to the farmer and every other worker, lies in a speedy alignment of the wages and prices which are now out of line with the general level, in a reduction of taxation, and in a restoration of sound conditions of finance. For the farmer in particular, the schemes of co-operative marketing and of facilitating the investment of capital on the farm, together with better transportation, will contribute immensely to correct present conditions. But withal, the thought needs to be kept constantly in our minds that underlying every disturbance at home is the disturbed state of the world at large, and on the correction of the world disturbance depends the correction of most of the disturbance at home. It is only as we view the plight of the American farmer, manufacturer, merchant and workmen in its largest aspect, as a part of a world condition, that we keep our true sense of its relations. Moreover, it is only thus that we find a starting point for working toward the proper remedies.

International Credit and Our Producers

IF the problem is thought out to its logical conclusion, long time international credit will be seen to be basically even more necessary today than long time farmers' credit. Long time international credit would help chiefly to move the crops, while farmers' credit might for a time at least help chiefly to hold them. No matter how far our home mechanism may be perfected—of production, transportation and marketing—it still remains that until we find a way to sell our surplus products, we shall miss the big factor leading to restored prosperity.

Just how the necessary international credit shall be provided to enable people overseas to buy our goods is still to be worked out. Plans suggested to date have not met with complete success, chiefly because there has been no complete harmony of agreement in the support of the plans. But statesmanship and finance together, recognizing the need of restored international confidence and cooperation, is now charged with the responsibility to find a way by which the vast resources of the old world may be used as an acceptable basis of credit, so that people there may buy the food, the raw materials, the machinery and the other goods of American production which they sorely need, and which we are in a position to supply.

No royal road, it is truly said, runs to prosperity; after all, the way to the solution of the common problems of the world is a matter which time will have to work out. But intelligent and courageous action on our part and on the part of the people abroad will shorten the time, and it therefore is most essential now that this country, which occupies so important a position of world leadership, should avoid that certain harm which would come with the application of schemes, now being discussed, that would give passing sense of prosperity, but that would put off indefinitely the return of true prosperity.

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MAR 14 1922

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, March, 1922.

BUSINESS signs lately have nearly all been of a hopeful nature, so that sentiment throughout the United States has taken a distinctly favorable turn. Looking over the immediate business foreground, the most notably hopeful sign is today to be found in the improved markets for agricultural products. The advance here has lately carried farm prices to the highest level since the 1921 crops were harvested, and has measurably relaxed the pressure of hard times in the west, just when that section was viewing the prospect most gloomily.

The buying power of more than fifty million people is affected by the level of agricultural prices, and changes in that buying power, either downward or upward, must necessarily find a very direct reflection in the business volume and profits of the country. From the beginning of January to the close of February the upward trend in the primary markets added 35 cents to a bushel of wheat, 20 cents to a bushel of corn, and 4 cents to a pound of pork. These changes in a period of eight weeks increased the value of the products in question roughly 20 per cent; what this meant can be judged from a statement that in normal times a gain of even 10 per cent in a period of six months would be nothing less than startling.

It does not hold, of course, that the buying power of the entire agricultural west has increased proportionately to the rise in farm prices. The farmer is still heavily in debt and realizes that among his first obligations is the meeting of his long-extended loans. Nevertheless, it goes without saying that the changes which have occurred have contributed an important incident to remove the most serious contributory influence in the current trade depression, namely, paralyzed buying power. Careful observers of business tendencies repeatedly pointed out during the early part of the winter that the mere low level, in dollar values, of what the farmer had to sell was not the only distressing consideration in the country's trade situation. What was for a long time of large significance as a trade deterrent was the distressing maladjustment which came about in the process of post-war deflation, in which prices of what the agricultural producer had to sell fell very much further than the prices of what he had to buy. One of the most confusing aspects of the country's economic situation since the period of deflation began has all along been found in the inequality of prices in the different commodity groups, and inasmuch as circumstances lately made it clear that manufactured products could not be expected at once to drop much lower, all interests were reconciled to the conclusion that the only method by which the farmer could be expected to buy those products lay in the process of advancing agricultural prices.

Straightening Out the Maladjustments

THE process has now straightened out to some degree the maladjustment of prices in the commodity markets; hence, if its good effects are not nullified by a downward reaction, and if it leads to no more than a moderate and gradual recovery in the country's purchasing power, it will give an impetus to business that has long been waited for. Of course, it would not do to count too much on a speedy and expansive trade boom because of this single influence. The individual grain producer, although he still has a large part of last year's corn crop for sale, and a large number of hogs, has already sold the bulk of his wheat, a recent estimate placing the quantity of that grain remaining on the farms at little more than 17 per cent of last year's entire crop. Hence, the farmer will not gain as extensively and immediately by the current price trend as he might have done had the advance come earlier in the season. Then there is the ever-present possibility of a reaction in prices, for so spectacular a rise as that which occurred cannot go on indefinitely, and might even be followed by a sharp decline. Moreover, what was referred to in an earlier paragraph must be kept in mind, namely, that the farmer is heavily in debt, and a primary duty which confronts him is the reduction of his debt and the making of a new start, so far as he can, with a clean balance sheet.

Signs of a General Betterment

AN increasingly healthy banking situation, an advance in high grade investment issues, an improvement in the international exchanges, and reports of changing economic and political conditions abroad have contributed with the incidents already mentioned to give a new tone to business sentiment. Moreover, there is the assurance that actual improvement has occurred in business. Various trades show expanding volume, and the loadings of freight cars on the country's railroads, according to the latest reports, are 14 per cent higher than at this time 1921. In other recent years there was a continuous decrease in railroad loadings from December to this date. This year there has been a continuous increase.

Generally speaking, developments with a bearing on the business future show that there has been at least a temporary turn for the better, in finance and industry as well as agriculture. Most people are inclined to interpret the favorable developments as decidedly encouraging, and perhaps because the wish is father to the thought, they are accepting them as an indication that an era of more prosperous times for the entire commercial establishment of the country is ahead.

Although it would have been too much to expect that the country's condition of depression, when it began to disappear, would do so immediately, it was certain that sooner or later the time would come when the forces driving in the direction of hard times would lose their strength and would be replaced by other forces driving in a new direction. The forces which have had control of business and financial affairs for more than two years have been of unmistakable power and have driven the country through a long siege of hardship; but to judge by present signs many of these forces have spent their strength and are being replaced. Consequently there is a growing confidence that the promises of improvement have more than temporary significance.

Our Relation with the Foreign Consumer

AN increased buying demand on the part of the foreign customer is now talked of as a factor bearing on recuperation. Such an increased buying demand is something that we shall do well to count upon lightly until signs of improvement manifest themselves more clearly. Our exports to Europe lately have been at the lowest ebb of a number of years, and the answer is still to be given whether the decline is a mere incident of Europe's trade depression, to be followed by an advance as Europe regains its stride, or whether it is a sign of Europe's effort to recover a sound position in international finance by cutting off outside purchases and building up as best it can an export surplus of its own.

Industrial Europe always has been, and from all signs always will be, absolutely dependent upon America for a large volume of its raw materials. Natural forces and social development account for that. But it has not always been, and by all signs need not always be, dependent upon America for a large volume of its manufactured goods. Europe is itself essentially a workshop where raw materials are converted into manufactured goods, and although from 1914 forward the extreme war-time emergency and the post-war needs made it dependent upon America for a tremendous volume of manufactured goods, it is not now entirely clear in just what manner we shall henceforward go in any effort to ship vast quantities both of raw materials and manufactured goods abroad.

It is quite easy to understand that until its period of rebuilding is completed Europe will seek to buy what it has not the means itself to produce, whether it be of raw stuffs or finished goods, and regardless of differing costs. Yet here again it would be well to hold brilliant expectations in check until it is seen how ready American finance is to go in backing up exports by extending export credits beyond the volume that is already outstanding. The American shipper naturally is anxious to develop again a profitable foreign outlet for his goods such as he had in 1919 and 1920, but it is patent that he can do this only if the proper machinery for international credits, which will properly care for a prolonged excess of exports over imports, is established. Representatives of American manufacturers report that they could receive plenty of orders abroad provided long-term credits were extended to the purchasers. But the mechanism for this purpose is still waiting to be set up.

The Economic and Political Influences

IN the meantime the forces which determine international trade are developing in a fashion that is intensely interesting, not alone from the point of view of our immediate prosperity but from the point of view of universal recovery from the blight of the war. Economic and political tendencies have taken a direction since the Washington conference—although not necessarily because of that conference—which as shortly as a few months ago would not have been thought possible. From a world viewpoint, in seeking signs of a change for the better, perhaps nothing more striking in a financial way could be referred to than the advance in the international value of the currencies of those countries which were thought to have been burdened the most by the legacy of the war. The British pound sterling, because of a steady and rapid advance since the opening of the year, is now quoted within 10 per cent of its gold parity, having approached $4.45 in the New York exchange market at the opening of March to the highest figure since 1919, when the official "peg" was removed. Seven months ago the pound was quoted at $3.53; two years ago it was $3.18.

With the rise in exchange on Great Britain, exchange on France and Italy has also materially improved, francs lately having established their highest quotation of two years in New York, and lire having reached their highest level of a year. German marks, no doubt because of the further reparation payments and the continued meeting of budget deficits in Germany by the printing of new paper money, have moved downward.

What Underlies Improvement in Exchange

SO many reasons are given for the appreciation of the international exchanges that it would require considerable space to record them all. The experts explain that there are various ways of interpreting the movement of rates in the foreign exchange markets—as reflecting a favorable or unfavorable merchandise trade balance of a given country, for instance, as reflecting the status of the depreciation of its currency, or, again, as reflecting the deterioration or improvement in the economic and political situation generally. It is quite clear that it is not the trade balances alone which explain the extraordinary reversal of foreign exchange tendencies which has occurred. The balance of merchandise trade against Europe and in favor of this country has been tremendously reduced, but though it is smaller than at any time since 1914, in the early months of the war, the balance is still in our favor and against Europe. We must accept as a partial explanation for the advancing rates, then, the serious attempts which have been made abroad to meet obligations maturing in the United States by shipments of gold, the efforts to reduce the pyramids of paper money, and the steadily changing economic and political outlook.

Forces That Point to New Conditions

IT is true that political influences remain a controlling circumstance in foreign financial affairs, but that is bound to be true for a long time to come, so interwoven are old-world politics and finance. At the same time it is manifest that the European trade situation is steadily improving, and that the countries outside Central Europe are at last seeking determinedly to rectify their trade balances, their budgets and their currency. So far as Great Britain is concerned, no doubt can be entertained regarding the improvement in that country's position in world trade and finance, nor regarding the progress in the direction of balancing public expenditures by revenues and in the direction of reducing the floating debt. The latest published statement of the Bank of England showed the volume of outstanding war-time currency notes to be the smallest since the armistice was signed, the decline from the high record being 18 per cent. The war-time paper currency of the Bank of France is down 9 per cent from its 1920 maximum.

The wonderful recuperative power of mankind, and the ability of nations to rise out of chaos, are points which have been dwelt upon by the historians of every great war; the recent emphatic change in the direction of economic affairs strengthens the conviction that the experience of the present is not to be different from that of the past. Taking the larger view, there is no mistake about the change which is taking place. The altered position of the international exchanges does not, of course, lead even the most sanguine optimist to the assumption that the fundamental factors which were responsible for the chaos of the past two years have been entirely removed. Currencies and prices abroad still remain unstabilized, debts and indemnities remain to be adjusted, old gold moorings are far from being regained, production and transportation are far from being organized, artificial trade barriers continue to separate raw materials from industrial areas and industrial areas from their markets, and the uncertainty of many foreign political organizations operate as before. Yet when all this is said, there still remains solid ground for satisfaction in all that is going on. Taking this view, Julius H. Barnes, in an address before the New York Chapter of the American Institute of Banking, said, on February 18:

"We may rejoice today that we may soon not be alone in holding up the standard of honest currency values, for it is clear to see that Great Britain, the home of financial sanity, is rising to its feet, bleeding and bruised, to be sure, but clearly rising, to stand shortly beside us in the rebuilding of a world commerce that rests solely on financial integrity, in practice and in standard. The progress is clear also, in this direction of financial sanity, by France and Italy, and the nightmare of financial delusions is clearly lifting from even the newly-established democracies of Europe."

All that goes on, and that contributes to the advance in the foreign exchanges and to the enhancement in the value of the securities of the sound European states, sheds a new light on the question of Europe's stability and on the question of the ultimate settlement of the international debts. There is not a person in the United States who did not hear, over and over during the past few years, prophecy of Europe's breakdown socially, and of its bankruptcy financially. Prophecy of dire happenings stiffened an American impulse to hold aloof from countries oversea, and to oppose continued extensive international credit operations.

The Grounds for Optimism

FEARS are no longer entertained that Europe's civilization may surrender to bolshevism, and confidence is being restored that the dislocations of trade and finance will in the course of time be corrected. It will be interesting to study the effect upon American sentiment of all that is now going on. In working back to normal, financial adjustments, revisions and compromises will have to be made abroad in order that the burdens of reconstruction may be the more readily borne. The Genoa conference next month, succeeding the Washington conference, will have a bearing on these things, and its outcome, if successful, will unquestionably lend impetus to the forward movement which is now under way. However, for the present it is sufficient to note that the signs of the times point to a working back, on the part of Europe's people, to social sanity and financial integrity. More than gradual progress we who look upon events from this side of the ocean cannot expect. Few of us, indeed, six months or a year ago, would have thought that today, in summing up, we could have said even so much as that.

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APR 10 1922

THE MECHANICS & METALS NATIONAL BANK
OF THE CITY OF NEW YORK

New York, April, 1922.

NORMALLY at this time of the year industry and trade feel the stimulus that is exerted by the enlarged buying for spring requirements, and 1922, happily, is proving no exception to the normal rule. Indeed, new activity has contributed to bring about a sufficiently sharp contrast from the conditions prevailing a few months ago that we are hearing in some quarters, with growing frequency and enthusiasm, the declaration that business troubles are now behind us, and that at last we are through with the penalties of deflation.

Just how much emphasis on the bright side of the business prospect is warranted is still to be determined by the breadth and extent of business activity in the months ahead, and just what those conditions of activity will be is for the present purely a matter of surmise. Too many obscure and confusing elements are at work to enable any one to read the future with a positive degree of assurance; still there is no mistaking the concrete evidence which is before our eyes that many of the movements for which business has been waiting are under way. Current reports show that practically every great industry, save where affected by labor troubles, is gaining ground. It is something more than simply a shaking off of the winter lethargy; the jobbing trades in numerous instances report an increase in orders not only over the recent past but over the corresponding period last year; the copper trade has expanded, and the steel trade, always the most accurate business barometer, has stirred into new life after an extremely depressing season, some plants working at better than 70 per cent of their capacity, as compared with 30 per cent last summer and a 1921 average of less than 50 per cent.

General betterment is shown by the fact that railway car loadings are above one and two years ago, the increase in the middle of March over last year being 17 per cent. Automobile manufacturers are shipping more than twice as many finished cars from their factories as at this time last year. Building construction, with the advantage of an early opening of spring, has taken an active start; for the middle week of March alone, building contracts awarded in twenty-seven northeastern states, according to a published compilation, amounted to more than $70,000,000, this being a better record than any previous week of 1922, and exceeding the highest weekly record of 1921 by 2 per cent.

Underlying Principles of Improvement

A GREAT number of reasons can be given for the tangible improvement that is recorded, and for the new note of optimism that is being sounded in business discussions. Principally, these reasons resolve themselves into the improved buying power of the farmer; the healthy condition in general trade which has come through retrenchment and economy; the reduced surplus of unsold goods which has resulted from the prolonged period of deflation and under-production; and the prospective resumption of normal expenditures in those lines which up to now have been retarded. The reinstatement of the farmer as a buyer of manufactured goods has proved the most powerful influence bearing on the improvement in business; in an important measure, also, it has been responsible for disclosing the reduced supply of unsold goods on hand. Having been geared down from an extraordinary war situation to a period of unusual peace-time quiet, and having suffered from a more severe price collapse than had been known in many years, producers for more than a year have conducted their activities on a scale below current consumption, so that the carry-over of goods this season has not been nearly so great as it was in the spring of 1921. Hence, with the growing inquiries, industrial producers have in a measure quickened their activities in anticipation of a growing need for goods which, without new production, might be difficult to meet.

Where Restraint is to be Looked for

IT is not to be understood from this, of course, that the large stocks of goods accumulated during the period of readjustment have all been absorbed and that there is now any startling shortage. As a matter of fact, there is still a surplus in nearly every direction, and in the trades affected the most by this surplus the condition of restraint on production will not immediately disappear. For that matter, restraint will not immediately disappear anywhere, notwithstanding the warmth of the sunshine that is beginning to break through the business clouds. For while we all may feel that the prolonged and disastrous storm of deflation is ended, and while we may expect a resumption of normal expenditures and an increase in output in those lines which have been retarded the most up to now, we cannot afford to overlook the considerations offsetting those already mentioned.

Because of the completeness of the change in world conditions, there is need for further adjustments in the lines of industry and trade which became tremendously expanded during the war to meet special needs which have entirely passed away; "stabilization" all along the line is still to be effected, for the economic forces which are the outcome of the war operate quite as much to control our business destiny as in the past, and until those forces are further straightened out prosperity will not be properly balanced, but in its very nature will be incomplete and one-sided.

Conditions in the Money Market

MONEY rates lately have very directly reflected the increase in bank reserves; business expansion has not been sufficiently pronounced to change the tendency. In normal years the spring trade activity has ordinarily resulted in a sufficient demand on credit resources to advance money rates, but this spring has seen the money market continuing the movement toward ease which has been in process for many months. The failure of discounts to advance has not been altogether a bad sign, however, as it has reflected not merely an absence of employment for money in normal trade, but also a further gradual release of credit from the ill-judged business ventures in which it became tied up during the recent period of excitement. Comptroller of the Currency Crissinger, in testifying early in March before a Committee of the House of Representatives, made the statement that there is still a great volume of past due paper in the banks of the country. But these are being progressively paid off, and although the process is far from completed, old indebtedness is gradually being lessened with the help of the sustained stability of commodity prices and the more rapid movement of trade.

The flow of gold from abroad, having added $750,000,000 to our supply of the precious metal since January, 1921, has diminished somewhat, but continues to contribute its influence to strengthen our bank reserves. The Federal Reserve System, having built up its gold holdings to the highest point ever reached, and having coincidently greatly reduced its outstanding credits, has advanced its reserve ratio close to an average of 80 per cent., as compared with little better than 50 per cent. a year ago. A long process of liquidation which has turned goods into cash and led to a reduction of bank loans has set so much credit free that bills discounted by the twelve member banks of the Federal Reserve System, according to the statement of March 22, were $702,950,000, as compared with $2,409,000,000 at the corresponding date last year.

Forces Operating Against "Cheap" Money

THERE is a current opinion in favor of a continued ease in money rates, but though the tendency at the moment is toward ease, there are influences outside the immediate daily movements of credit which operate against further material reductions in rates. After all, what must dominate all current credit conditions is the fundamental fact that through the destruction of war there is a world shortage of wealth, and this can be expected to maintain the rate of interest for permanent investment for an indefinite time at comparatively high levels. The rate of interest for temporary employment of floating credit in the money market is not, to be sure, the same as the rate of interest for permanent investments. The rate at which short term credit can be employed depends on the activity of trade and on whether prices are rising and falling. But in the long run the world shortage of funds will inevitably exert its influence against any extraordinary or prolonged ease in money market rates.

Restoring the Exhaustion of Credit

WHILE it is recognized that the ordinary cycles of trade depression, involving arrested optimism, expansion and speculation, find their primary cause in an exhaustion of capital and credit in a given part of the world, and are followed by prosperity when that local exhaustion is corrected, it has been apparent all along that the cycle through which we have been passing found its primary cause in capital and credit exhaustion not in any given part of the world, but in the world at large. It is apparent, then, that the full return of prosperity depends upon world, and not local, conditions. The world's tremendous war waste remains to be made up, and upon the efforts of people everywhere to restore that waste depends the world's ultimate emergence from its cycle of depression. The prosperity of our own industries, quite as much as the level of interest rates, is tied up very closely with the credit and capital of people oversea, and we can expect that the efforts of those people, especially in Europe, to regain and improve their former living standards will lead ultimately to large expenditures here. But those are future prospects; the present problems of adjusting industrial output to normal demands and of realigning prices to their proper relationships will exercise definite restraints on any enthusiastic efforts to force expansion.

For the immediate future, then, it would appear that even though business goes on improving the problems of readjustment and realignment will continue to be met at every turn, just as they were met through the recent months of the deflation period. The process of bringing buying and selling power together at a level that is commonly satisfactory will have to continue for some time to come. That it will not be easy may be judged by all that has gone before in the matter of bringing production costs down to a level where the buyer would be satisfied to make purchases in volume. For a long while buyers maintained the attitude that prices either did not represent value or at least that they were not based on the utmost of productive efficiency, and we have still to see whether that attitude is permanently changed.

Lower Prices or Higher Buying Power

IT must be recognized that the power to name prices low enough to attract buyers is still largely governed by wage scales, and bringing these wage scales into line with new conditions remains one of the most trying tasks that are faced. Old wage scales which do not conform with retrenchment and economy are not being replaced without a struggle; the strike in the textile industry, the call for a walk-out of coal miners this month, and the difficulties of the Labor Board in adjusting railroad wages, are a few of the prominent symptoms. It is easy enough to demonstrate the fallacy of the idea that labor can maintain an exalted living scale when the whole industrial scale is severely deflated. But it is not proving so easy to correct the fallacy.

Moreover, it is not proving so easy to determine the exact level at which buying and selling power should now normally meet. We have yet to find out just what "normal" is. Following the downward price adjustments of last year, no buying power of any consequence developed, and even after it was said that the low level of the movement had been reached and that further reductions could not possibly be made, successive cuts occurred in the prices of standard commodities in an effort to find the normal level of the purchasing power. As a matter of fact, an advance in purchasing power instead of a further decline in prices developed the buying demand of the current season. Rising values of farm products, by reinstating in part the purchasing power of the agricultural sections, contributed materially to change the whole aspect of trade, so that what we have seen has been a trend toward an evening up of advantages between agricultural industries and manufacturing industries, instead of a further evening down. But whether this trend has been toward any stable or "normal" level, is something which time will have to determine.

Influence of the Foreign Demand

SO far as our national prosperity is concerned, it must be recognized that buying power is governed in no small degree—and will continue indefinitely to be governed—by conditions prevailing abroad. The evening up of advantages between the agricultural industries and the manufacturing industries has in a sense eliminated handicaps between the geographical divisions of this country but an elimination of handicaps between the hemispheres is still to be effected, and that, because every fundamental condition which is a consequence of the war is involved, will not be a simple or speedy matter.

Internationally our trade is still severely curtailed, and although an improved position of the British, French and Italian exchanges, in comparison with recent months, has been universally accepted as testimony of an improving international credit which should react favorably on our trade, up to the present our exports have been chiefly of necessities, and for the most part have been offset by foreign sales here. This is not surprising in view of the continued unwillingness on our part to extend long credits to foreign purchasers of our goods, and in view of the foreign consciousness which has finally developed of the need for rigid economies.

Contrasts in Foreign Exchange

THE improvement of the European exchanges has brought the important foreign currencies closer to a parity with the American dollar than before, making it less costly to buy in the United States than when those currencies were at their greatest discount. But, after all, the unreality of the world's economic position and the topsy-turvy state of finance are indicated by the movement of the exchanges, for while rising exchanges are recognized as a sign of rising economic strength, for the countries involved rising exchanges are not proving altogether an unmixed blessing, especially as they have emphasized certain marked disparities. With the British and French exchanges on a higher plane, German exchange has fallen to a point so low that in foreign trade, on a mere comparison of prices, manufacturers in England and France are less able than before to equal the manufacturers of Germany. This is due partly to the position of labor. A manufacturer in Germany has to pay a workman with currency of much less value than a similar workman receives elsewhere. A mechanic receiving 150 marks a day in Germany might be said to correspond with a mechanic receiving 10 shillings a day in England or 15 francs a day in France. Translated into American values, this means that a value of 45 cents a day is paid for the output of a German workman, whereas a value of $2.20 must be provided for the Englishman and $1.35 for the Frenchman.

England and France thus find that the higher sterling and francs go, the more it costs in foreign currencies to remit for purchases there, while Germany finds that the lower marks go in the exchanges, the easier it is for the German manufacturer to undersell his competitors in foreign countries. Germany is offering keen competition at present, and the complaints of other countries are as loud as ever before. How much longer German prices can be a potent factor in the commercial field is questionable. Through the progressive depreciation of the mark, Germany is steadily approaching an impossible position in international trade—a position in which, having exhausted its available supply of raw materials, it will find it necessary to expend so many marks to replenish itself from the outside that even with cheap labor (and cheap labor will not go on indefinitely working for currency that buys nothing) it will not be able any longer to go on with what it is now doing.

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MAY 11 1922

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, May, 1922.

FROM the time of its conception to the date of its actual beginning, it was the hope of a large part of the world that the Genoa conference would make economic history of a definite and effective kind. That it will make economic history as effectively as it has made political history is still possible, although, plainly, there is nowhere the same assurance of this that was felt before. Begun on April 10th for the purpose of dealing with some of the imperative credit problems which confront Europe, the conference changed face almost at the start, and political differences instead of credits received chief attention. The conference has yielded much that was dramatic and picturesque, and undoubtedly has had a profound bearing on international relationships; but as regards the problems of debts, currency and exchange, it still remains to be determined how directly it has gone to the heart of those problems, or defined concrete solutions.

The obviously fair thing with respect to Genoa is to withhold final judgment until it is seen what reconstruction plans come out of the conference, and, further, what machinery is set to work to restore international prosperity. Because the disorganization of Europe is very real, and leads to such misery among the 400,000,000 people of that continent, other conferences, coming out of the one now in progress, are in view; Sir Robert Horne, British Chancellor of the Exchequer, has already suggested one that would bring together representatives of the world's great note issuing banks, our own Federal Reserve System among them, to see what might be done by banking methods to establish greater financial order and cooperation.

The United States is not represented at Genoa, and popular interest here at the moment is, on the whole, a little bit cynical regarding the merit of conferences. The general impression is that instead of clarifying economic issues they multiply political complications. Still it must be clear at this stage of world affairs that it is only by means of repeatedly bringing nations face to face with one another, that understandings and agreements on international problems are ever going to be possible. Genoa has made it appear that general discussions develop more national differences than agreements, and that enmities and suspicions are intensified by conferences. Were this really the case, the nations would never arrive at concrete plans for adjusting credits and establishing stability in trade and exchange. Europe comprises a variety of nations, each jealous of its position and sovereignty, and there is natural ground for many political differences and quarrels. Moreover, every government abroad has allowed its national finances to become so intimately intertwined with the affairs of national politics that no single subject touching on general welfare can be taken up without catching hold of all the others.

Adjusting Difficulties by Conference

HOWEVER that may be, at a time when the economic stability of the world is clearly demanding the most cordial spirit of cooperation, when, as Mr. Lloyd George expresses it, Europe is racially to be compared to seething lava which is seeking a proper level, and when it is recognized that a unity of ideas is prerequisite of any constructive action, is it too much to expect an ultimate definite accord among the nations with respect to their most pressing problems of debts, currency and exchange?

It is a lot to ask of human nature to demand that men who represent the countries recently torn asunder by war should forget their bitterness and think entirely in unison, conceding generously to one another on a basis of strict economic principles, and disregarding the sacrifices they might be called upon to make. Yet every nation is learning, by trial and suffering, that only through a unity of ideas with other nations, leading ultimately to a common attack on mutual problems, can its affairs be mended. Hence the nations of Europe can be expected to go on from one conference to another until some accord is reached, with the United States taking part, either actively or passively, only when matters of vital concern to this country are considered, and when politics have been eliminated or at least subdued.

National and International Finance

SO far as finance is concerned, it is of course conceded that conferences by themselves will not balance a single nation's budget, control its currency or stabilize its exchange. Each nation must do that itself. But conferences competently conducted will be able to formulate the routes which should be taken, and by bringing antagonistic interests in agreement, synchronize the processes of recovery so that, though each country works separately, there will be a minimum of friction.

The countries which are the bulwark of Europe's commercial and industrial system are Great Britain, France, Italy, Germany and Russia, and a common understanding among them would carry the whole world very far along the road of reconstruction. True, such a common understanding would involve first of all a greater sympathy among these nations, and, essentially, a breaking down of the power of political dictation over financial policies. A comprehension of the methods to be pursued is not easily acquired; mere stating of economic and political generalities is not sufficient, especially when it is seen that those countries which were the victors in the war are today in the position of not knowing just where the fruits of victory lie, while the vanquished cannot determine in what direction they are bound. Great Britain, with hundreds of thousands of unemployed men, needs markets for its products; France and Italy, with finances strained, need credits and reparations; Germany, with the burden of defeat weighing upon it, needs stabilizing; Russia, with its trade and industry gone, needs everything. No two countries have exactly the same problem, but for every country there is needed, seemingly, the same solution, namely, the adjustment of financial credits.

Some of the Chief Problems

EVERY nation abroad is in agreement with the principle that treasury budgets must balance and that the currency inflation which has aggravated the prevailing economic chaos must cease. But these principles involve, in a most complex manner, such questions as military disarmament, reparations, trade with Russia, and distribution of the world's gold supply. All of these questions, considered to be political rocks on which any European conference might break—some of them were to have been absolutely shut out of discussion at Genoa—are so vital to the economic welfare of every country that even at Genoa they had their place, for, as someone there described it, "we drove them out of the window, and they came in at the door."

What, then, Europe especially needs as a preliminary to straightening things out—what indeed the whole world needs—is a process of calmly and soberly thinking and talking things out. Facts must be faced; causes rather than symptoms must be dealt with; confidence must be established.

"Credit", said Secretary Hughes in an address on April 28, "does not precede, but follows, confidence, and the first essential is a true perspective."

So, then, it is by closer economic cooperation and a breaking of the political shackles which bind financial policies, that we can expect a successful attack on the problems which now confound Europe. As for the United States, it cannot fail to be noted, despite the bearing which the acute social and economic instability abroad has on our welfare, that we still fail to take the broadest outlook on world problems, or venture remedies for their betterment. After all, these problems, because of our intimate business and credit relations with other people, concern us directly, and it is becoming increasingly obvious that without us no clear solution of Europe's problems will be found. "Left to themselves," reports a recent observer, "the European nations, suspicious of each other, deprived of the moderating influence of the one State that has no axe to grind except that of peace and productivity, have found the task of cooperation increasingly difficult." While we have no part in the political differences of other countries we have a large part in the direction of the world's economic forces, and when it comes to a strictly financial conference, it is not unreasonable to believe that we will take our part in laying down the principles upon which the countries of the world shall jointly act if they are to eliminate the evils of war and post-war finance, and restore to themselves again the old-time credit relations.

Improvement in Business Conditions

QUITE apart from the unduly bright reports heard in business and financial circles, trade reviews are distinctly hopeful. Progressive gains in the volume of industrial output, combined with a continued accumulation of capital and credit, have found their reflection in a number of directions; in a greater employment of labor, for instance; in a strengthening of prices; in a better state of things on the railways; in a pronounced rise of security values and a broadened public interest in security trading; in a further easing of the situation with respect to the long-standing "frozen loans."

Present indications point to sustained activity, even if they do not altogether encourage expectations of further large expansion. Nothing in the situation is perhaps so encouraging as the general belief that a bottom price level has been established, and that henceforward adjustments which are made will, on the whole, be in the nature of stabilization, with odds in favor of advances rather than declines.

Establishing Prices and Costs

DUE to the relative stability of prices, after their downward sweep of last year, it has been possible to establish a reasonable relationship between prices and production costs, with particular reference to wages. Stability is the basic element in every process of business recovery, and it is extremely fortunate that, so far as cost and price are concerned, this is being established without further upheaval. In the process, labor disputes have not been entirely avoided; the textile and coal strikes continue in progress, although up to the moment they have not had serious effect on the general industrial situation. The textile strike has proceeded since the early part of the year without bringing hardship to the trade, chiefly because of the surplus that has been previously accumulated. The coal strike has proceeded for a shorter time, but, here too, because of accumulated surpluses, there has up to the moment been no marked hardship. Of course, this cannot be the case for any length of time; as old accumulations are used up and reserves decline, hardship must begin to be felt in those trades dependent upon the output of the men who are on strike. With particular reference to the steel industry, it is reported that the fuel shortage has already caused difficulty on the part of the small plants which have had to suspend operations. A protracted coal strike would obviously hold the possibility of harm for recovering industry, and would cause prices to rise more sharply than if matters took their normal course.

Basis of Hopeful Predictions

SPRINGTIME always colors men's views, so, disregarding the less cheerful factors affecting the business situation, improved trade has encouraged much "sunshine" propaganda, and boom prophecies are increasing in number and confidence. At the same time, conservative people are asking themselves seriously whether any pronounced expansion beyond the present rate of industrial output could be long maintained. It is true that increased buying by domestic consumers, both in the agricultural and non-agricultural sections, is absorbing the bulk of the output of the country's plants, and that buying demand has sufficient momentum to support the improvement in output. But to fulfil the current boom prophecies and establish peak activity for industry, a part of the country's output must find its sale in other than domestic markets. The foreign outlet for American goods is still in considerable measure closed because of the unusual economic conditions prevailing over a large part of the world; during the first three months of 1922 our merchandise exports were $861,000,000, as compared with $1,527,000,000 in the same period last year, and $2,186,000,000 in the first three months of 1920.

A reasonably strong condition of foreign business must be established if domestic trade prosperity on any large scale is to be attained. And, as a creditor nation, as we sell we must arrange some means of payment. Up to date no satisfactory plan has been established of financing that part of our export trade balance which cannot be met with cash payments or short credits; machinery for long-term commercial loans still waits to be set up. Large imports to offset large exports are mentioned, but the prospect of these is constantly viewed with alarm. The unwillingness to recognize the force of the economic axiom that "you cannot sell if you do not buy" is carrying through the Senate a tariff bill which, like that recently passed by the lower House of Congress, is designed to protect the United States against receiving too many foreign products. Having drained foreign markets of much of their gold, having declined to extend long credits so that foreigners may buy, having determined to keep foreign goods out of the United States, and having insisted steadily upon the payment of obligations due us, we still find ourselves with a productive capacity that is far greater than our own needs, and are counting upon enormous sales abroad in order that we may be prosperous.

Situation in the Money Market

DEMANDS for money reflect the expanding volume of general business. Indeed, the low level of money rates, making it more easy to borrow than for a long time past, has become a dominant supporting factor of the business revival. The contrast between present rates for credit and capital and the rates of 1920 cannot cease to be a source of wonder in a period of numerous after-war economic wonders. The war destroyed wealth and strained credit resources to an unparalleled degree, so much so that only a little while ago it was the common thought that banking credit would for a long period be obtainable only at premiums over the past, and that investment capital would command high rates perhaps for years to come. Short-term banking credit has become available at the lowest rates of a number of years, while investment capital is seeking employment at rates which approximate those of the period before the war. Last month the government successfully sold an issue of Treasury certificates on a basis of 3½ per cent, while some of our municipalities found it possible to place their long-term issues on a basis as low almost as 4 per cent.

It is not easy to draw conclusions from these facts; the world's finances are too disjointed to prophesy with assurance on any matters dealing with capital and credit. Both from a national and international viewpoint, the vast quantities of gold which repose in the vaults of our Federal Reserve banks are an element of doubt and misgiving, and no confident predictions can be made regarding the future until it is known what disposal is to be made of the surplus of gold which the business of the United States does not need, which the business of other countries needs very much, but which does not move away. The gold in the Federal Reserve banks at the opening of May practically reached the $3,000,000,000 mark, the increase over a year ago being $680,000,000. Other countries cannot in the ordinary course of trade and exchange bid any part of this gold away from the United States, and in the meantime the desire, encouraged by low money rates, daily becomes stronger to absorb it in the support of strictly domestic enterprise. The country's banking situation has gained so much strength that in the domestic markets, in spite of the demands of expanded trade and broadened stock market speculation, money rates have up to now hardly shown any effect. But this cannot be expected to be the condition indefinitely. The more rapidly the situation develops the greater will be the necessity for caution with respect to the future, and the more severely will the country's business sanity be put to test. For the moment, fortunately, there is a universal unwillingness to have any false prosperity attained by the initiation of another period of inflationary loans, with excessive bank advances, over-valued goods, and all that goes with a hollow boom such as that which collapsed two years ago.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, June, 1922.

WITH the passing of the Genoa Conference there comes what may be termed a "thinking space" before other conferences—that of the Hague for example, called for the latter part of this month, and that later conference at which representatives of the world's principal banks of issue are to consult on methods by which they may contribute to peace-time reconstruction. Whatever its shortcomings, perhaps by reason of them, the Genoa Conference made the need of further conferences very clearly manifest; it made manifest, further, the need of quietly thinking certain things out before further attempts are made formally to talk them out.

Prejudice, bitterness and wrong thinking among foreign nations blocked the achievement of full success at Genoa, and recognition of this, we may be sure, has led the real statesmen of Europe to redouble their efforts to seek a way for an amicable and joint application of the principles upon which a return of international prosperity must be based. The spirit of rancor among nations abroad is gradually effacing itself, as each nation learns by suffering that it cannot prosper unless prosperity returns to its neighbors; were that spirit through conciliation to disappear entirely, and give way to a spirit of unity, every problem which stands unsolved today could be tackled at future conferences with light hearts and in complete assurance of success.

Any immediate hope of this, of course, is futile. But in the light of developments since the Washington Conference, and having learned from Genoa the pitfalls which are to be shunned if international accord is to become real, those charged with the responsibility of securing cooperation have now an opportunity calmly and intelligently to think things out, and, before coming together again, to determine to place the emphasis of Europe's problems where it belongs. Up to now they have treated those problems as though they were solely political. Europe's troubles are economic first, and political afterward; they spring from the collapse of productive effort, the breakdown of commerce, and the financial dislocations which find their worst expression in the swollen loans and inflated currency issues of every country.

Progress will come only when the base of Europe's troubles is clearly seen, and when remedies begin to be applied at the base. Conferences on existing troubles and their remedies are to prove a prime factor in establishing world peace, for out of a repeated meeting of minds there are certain to come a conciliation of hostile purposes and a united effort for the general welfare. But besides conferences there are other prime factors which require the initiative of every nation, applied individually.

Nations Must Adjust Problems

BEARING directly on the destiny of every civilized nation, and controlling the future course of international finance, is the manner in which the world's leading governments are now to go about determining the problems of national budgets, debts, currency issues, and exchange. The Genoa Conference adjourned without being able to put into joint effect any definite formula of financial reconstruction, and now, pending the other conferences which are to come, it is left to the nations singly to take up the problems of bridging the chasms between their income and expenses, of adjusting their loans, of controlling their depreciated currencies, and of stabilizing their fluctuating exchanges.

Every formula that is given for restoring financial stability among the nations includes the precept that governments must henceforth rigidly reduce their expenses. The United States has thus far succeeded very well in following this precept, for according to a recent statement made by the President to Congress, Government expenditures for the year ending June 30th next will be approximately $1,600,000,000 less than the actual outlay for last year. Other nations have not succeeded so well as the United States in the matter of national economy, although some of them, with Great Britain in the lead, have made an effort, and have succeeded according to the degree of the earnestness which they have applied, and according to the degree in which they have found themselves at the mercy of post-war conditions. Supported by vast resources, and not having suffered so great a war strain as many of the other countries, our national finances have been adjusted so far since the close of the war that the Treasury Department at Washington has found it possible not only to curtail its expenses materially, but in face of smaller tax collections it has actually reduced the national debt by an amount equal to the total of the Civil War debt. Great Britain has been able to lower the gross amount of its public debt, and so have a few other countries. Generally speaking, however, the United States is the world's outstanding figure in the matter of expense curtailment and debt reduction, and its example of effective readjustment has thrown into sharp relief the feeble success elsewhere.

Drastic Reductions Necessary

NEITHER jealous nor fearful of any other nation, the United States has no enormous standing army to act as a drag on its finances, as is the case with many other countries. Maintenance of greatly inflated armies and bureaucracies is responsible for the chief item of government expense on the continent of Europe; this item, with debt interest, accounts for the national deficits which it seems impossible to overcome either by taxes or loans. It is acknowledged by every European statesman that the strengthening of government finances abroad, leading to a restoration of national solvency, rests upon a drastic and proportionate reduction of armies, yet we hear it repeated daily that national fears will not permit the economy of demobilizing. We also hear it repeated daily that, in the interest of the people's welfare, the taxes must be reduced which are levied to support armies and meet the other charges against government coffers. While their governments insist upon large armies, taxpayers are anxious to be relieved from paying for them.

American taxpayers, in view of the economies effected in government operations, have made their arguments for lower levies sufficiently pronounced to bring downward changes in the income tax schedules. But even in this country, which has no large standing army and whose financial position is stronger, both absolutely and relatively, than that of any other country in the world, it is significant that the most careful handling of national finances is imperative. Through the reductions which have thus far been made in income tax rates, through shrinkage in the business profits out of which tax levies are met, and through increased expenditures in a number of directions, a national deficit is expected in the next fiscal year. Secretary of the Treasury Mellon has already announced that the government's deficit for the fiscal year 1923—without any provision for possible bonus or ship subsidy appropriations—may reach a total of $484,000,000.

With the national debt still twenty-five times the total of 1917, and with Treasury deficits still in view, it can be seen that this country is far from being out of the financial bog into which the war drove it. But if this is true of the United States, it is doubly true of other countries. They face obligations left them by the war in the shape of huge interest-bearing debts and indemnities; in addition, they support greatly inflated military and government organizations. Plainly, their dilemma is one which has to be met in only one way—economy. For if they were to carry out the formula of balancing budgets solely by a levy of taxes, a duty would be imposed on their people which they would not be able to bear.

Post-War Patriotism Vital

THE question was often asked during the war, what will be the attitude of the tax-ridden people toward the institutions of the day, when the fervor of war-time patriotism is gone? The question is now one of vital significance, for we recognize that whereas the war itself broke out at a time when people in Europe were protesting against political and social institutions which had become oppressively expensive, these institutions are now far more expensive than before. In the case of practically all the continental nations we know them to be confronted with the necessity of raising so much for government purposes, without any writing off of old indebtedness, that their people are called upon to give up an extraordinary part of their earnings to the State. There is of course a maximum of taxation beyond which any nation cannot go; to make a tax too extreme kills initiative and incentive, and thus diminishes industrial and commercial prosperity. If tax bills in any country, in order to maintain unwarranted government establishments, were hereafter to exceed the annual excess of people's production over consumption, the progress of that nation would stop. People cannot create new wealth if they do not save, and it is not possible for them to save if their surplus income is taxed away from them.

Writing Off Indebtedness

ECONOMY in current expenses, and a steady revenue from taxes, will supply the only means by which, in the future, any government will write off old indebtedness. Outside of the United States these means have not yet been effectively tried; post-war problems in Europe have been too severe to permit the strongest nations to liquidate their war indebtedness—or, in the case of their indebtedness to the United States, even to meet interest requirements. Great Britain is the strongest nation, financially, of Europe, yet Great Britain, seemingly, has determined for the present upon the expediency of lightening tax burdens rather than carrying further any policy of reducing its public debt. This makes a concession to the present at the expense of the future; in other words, it checks the reduction of war debts through redemption, and by making war debts permanent for at least this generation, it makes enduring a future levy of taxation in proportion to the amount necessary to pay interest obligations.

The war is not yet so far in the past that any of us have forgotten the manner in which, during its course, it was explained that bonds must be issued in order that future generations might help to bear part of the terrific financial burden. Taxes were burdensome during the war; they are burdensome now and will continue, by very reason of the war-time bond issues, to be burdensome for a long time to come. To a very large extent, unless an unforeseen development occurs, and unless subject to cancellation, the world's existing debts must be regarded in their very nature as permanent, being left for future generations to bear. Great Britain still carries, as a debt, obligations which were incurred in its war against Napoleon; part of our Civil War debt still stands.

Economic History a Guide

IT is said by the optimistically inclined that future generations will be able to bear the debts which are left to them as readily as other generations have borne their legacy of past wars. The fulfilling of such a prophecy will depend entirely on the manner in which wealth increases in years to come. It is a matter of economic history that no matter how much nations might have borrowed in the past, to carry on warfare or establish peace, or how high their debt might have been piled, if their wealth and income increased proportionately, they remained solvent. If wealth and income increased more rapidly than debt, they became more prosperous than before.

History lends encouragement to any study of the longer outlook, but for the immediate outlook there are no precedents, on an adequate scale, to go by.

Our Interest in Reconstruction

HOWEVER, the whole question of government economy, taxation and debt liquidation has an important bearing on the capacity of nations immediately to carry forward their plans of post-war reconstruction. How it will all work out is a matter of more than passing moment to the United States, especially in view of the statements, repeatedly made, that this country is being counted upon to play an early and a leading part in Europe's reconstruction. Physically distant though we are from the adversity of Europe, we cannot escape our relationship to the causes and the probable results of that adversity. As a nation we have set ourselves definitely against meddlesome political interference in the affairs of the outside world. But as a people we have a business stake in the outside world which makes it imperative for us to take a position, economically, that will protect ourselves and our interests as the days run on. Our economic stake in world affairs is represented at present by $18,000,000,000 of funded and unfunded debts owed to us from overseas; it is represented in an American productive capacity which has been built to such proportions that it depends upon a large volume of export trade for its full employment; it is represented by international credit and trade policies which we cannot abandon.

Importance of Credit

THE part which we are to play in the future of Europe will be determined by business considerations and not by charity or the expectation of political advantage. And discussion of the part we are to play, like the discussion of every other problem coming out of post-war conditions, comes back to the subject of credit. Every problem, however thorny, rests itself there. But credit by itself cannot solve every problem; before the help of credit can properly be utilized it will have to be determined how far financial reconstruction is to make good the foundations of credit. At the moment, what too many nations abroad are seeking to accomplish is a three-fold task: they are striving to carry a crushing load of expense, reduce taxes, and borrow extensively. The hopelessness of accomplishing all three tasks together is plain.

A sane adjustment of expenses to income, and a clear cut accounting of the assets and liabilities of every nation which was engaged in the war, are today more vitally necessary than at any time previously. Adjustments of international debts by agreement may be necessary, and, if necessary, should speedily be made. But first of all it must be seen what can be done to lighten the load of expense to a point within the income and savings of the people responsible for that expense. The first step must be taken by the introduction of rigid governmental economy and by the abandonment of militarism. The second step will naturally follow in a careful study of debt problems, with the purpose of making old obligations bearable and new obligations safe. Certainly upon these two steps rests the determination of the further credits which, we are told, must be advanced. From a practical standpoint the assistance required by Europe must be large enough in amount to meet the need for which it is intended, and it must be made in the assurance that the financial condition of the borrower is sufficiently straightened out to permit borrowing.

World's Credit System Strained

COMMERCE, in our modern system of economy, is principally carried on by credit; the whole fabric of trade, national and international, is knit together by the obligations given by debtors to creditors, and by the belief of the creditors in the goodness of those obligations. The war and the subsequent conditions of peace strained the world's credit system to the utmost, yet commerce still counts for its existence upon credit, and stakes its future upon the continuing acceptance of the principle that men will honor their notes at maturity. Success in the future, we may take it then, will be tested by the readiness, on the part of those who have what others need, to go on accepting notes and bonds payable in the future in the assurance that those notes and bonds will be paid at maturity.

Looking at the picture coldly and dispassionately, it will be seen that in every case, whatever the financial strength or weakness of separate nations, constructive steps to set the national house in order must be taken now, for it is clear that only in the concurrent use of all possible plans for economy and reconstruction will the problems immediately before Europe be solved in a fashion to make life tolerable for the masses. Credit eventually will extend its life-giving help, but in the last analysis it will have to be the people's income and savings that will govern. For while in every case new public securities will be a mortgage on the wealth of the nation responsible for their sale, the security really will be the right to share in the earning power of that nation, and be redeemed out of that earning power.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, July, 1922

DIFFERENT people come to different conclusions from a survey of the many cross-currents in present-day affairs. Those who are cheerfully inclined take satisfaction in the continued fall of money rates, the sustained industrial activity, the reduced railroad tariffs and the prevailing demand for investment securities. Others less cheerfully inclined temper their satisfaction by setting over against the favorable indications those which are unpleasant; the labor difficulties, for example, which found their latest expression in the threat of a railroad strike and the coal strike violence; the tariff and bonus legislation; the indications given at recent elections of a change in the public's political sentiment; and, overshadowing all, the foreign difficulties which block the return of international prosperity. Events abroad which have followed the failure of the Genoa conference are all symptomatic of dissentions flourishing in the poisoned atmosphere which, in Europe, has succeeded the war.

On the whole, the majority of American people are influenced by the favorable indications of the moment, and a distinct spirit of optimism prevails in financial and business circles. With money rates lower than at any time in a number of years, credit is a cheap and plentiful commodity, and it is not to be wondered that this consideration by itself has had a distinct effect on sentiment. Low discount rates reflect the release of a far greater quantity of accumulated funds than is needed to finance commercial requirements; this is shown by the fact that notwithstanding the improvement in industry since the early part of the year, banking accommodation has shown no corresponding increase. With the reserves of our central banking system at a high point, and with gold continuing to flow into the country to add to those reserves and broaden the facilities for credit, there is every present assurance that the legitimate demands upon banking resources through the balance of the year will be readily met. Further reduction has occurred in the volume of "frozen" agricultural loans which were carried over from last year, and this has contributed further to strengthen the credit position of the banks and to improve sentiment, especially in the west and south.

Possible Effects of Easy Money

LOW money rates offer their own peculiar temptations to the financial and business world, but up to this time there has been an absence of any noteworthy tendency toward speculative buying, either of securities or commodities, which could be attributed to the swiftly easing money rates. This has relieved one anxiety that was felt lately regarding the danger of a renewal of credit inflation, and a general marking up of prices in a period of unjustified and dangerous activity. To some extent the changed banking situation has encouraged producers to enlarge their output in anticipation of orders, but the inclination to do this has for the most part been carefully held in check, and has not become a menace to any degree.

In the meantime the effect of the low prevailing money rates is being closely watched, with a view to the movements of the longer future. Recent comment has made much of the historical precedents of other post-war periods, in which the real tasks of economic rehabilitation were taken up in earnest only after funds were released from their war-time commitments, and accumulated in manageable shape in reservoirs which could be drawn upon for the needs of reconstruction. The world's capital resources are still strained, but so far at least as commercial credit in this country is concerned, the bank reservoirs have lately accumulated funds in extraordinary amount, and it is now to be seen how soon and to what extent these funds will be drawn upon for the real tasks of economic reconstruction.

Position of Government Finance

EVERY mention of the terms "credit" and "economic reconstruction" brings to mind the tasks which face bankers and statesmen in unravelling the tangle into which the war brought international finance. The adjustment of commercial credit is only one part of the task; both through voluntary loans and indemnities, nations today owe one another prodigious amounts, so that the adjustment of government credit has also to be effected. Debt problems which came out of wars of the past were for the most part national. Those of today, which are a result of the Great War, are so tremendously international that men are plainly at a loss to know how to proceed. Already over-weighted with international debts, nations face the need for incurring more debts, and we are told that the need must be met with loans to those very nations which are least able to meet the obligations on their existing loans. At Genoa no way was found to meet the situation; the recent conference to find a beginning with a billion-dollar German loan did not materialize; it is doubtful how far the Hague meeting will help. All in all, the proposition is utterly confusing, and he would be a wise man indeed who could work out a plan for the proper disposal of the existing international debts while supplying a plan for the proper extension and security of new debts.

Foreign Debts to United States

BESIDE the indemnity claims against Germany there are billions of dollars of other international obligations which complicate European finance, and which have a very direct bearing on the United States. In a broad sense the principles which govern the debts of foreign states to one another, whether those debts were incurred voluntarily or were imposed, are alike; they bear a resemblance also to the principles which govern the indebtedness of the Allies to the United States. Next to the $32,000,000,000 owed by Germany to the Allies, under the terms of the peace treaty, the world's greatest single item of international indebtedness is that owed by the Allies to the United States. According to the Federal Reserve Bulletin, the amount of this on May 15, including interest accrued and unpaid up to the last interest period, was $11,456,000,000. The interest on all war time advances has not been paid, under an agreement that until 1923 they shall be funded.

Recognition that most of our debtors will be unable in 1923 to meet the obligation of their notes led Congress recently to create a Debt Commission of five members, which has been given three years in which to "refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now held by the United States." The Commission is composed of Secretary of State Hughes, Secretary of Commerce Hoover, Secretary of the Treasury Mellon, Senator Smoot and Representative Burton. The Commission is admirably constituted, but its hands have been carefully tied, for it is expressly denied the power to cancel any debts, or to let one government assume another's obligations, or to accept less than 4½ per cent interest.

What Shall Be Done With Debts?

JUST as in Europe there are divided views regarding the disposal of the international debts, in this country views are divided. With reference to the debts of the Allies to this country, it is urged on one side that we cancel them outright, wiping them off as though they had never existed. On another side cancellation is flatly opposed, and full payment is demanded. With leaders of thought and opinion divided as to the course which should be followed, it is no wonder that people generally, at sea over the complex arguments put forward, maintain a marked aloofness to the proposal that the United States shall forego what, under the terms of foreign obligations, it is entitled to. Hearing repeated calls for new credit advances to Europe and at the same time confronted with proposals that existing debts be forgiven, thus permanently placing the burden of war costs on American tax payers in order that foreign taxpayers may be spared, it is no wonder that people in every part of the country are cool to the suggestions of international debt cancellations or compromises.

From abroad, because of this, reports come that we are suffering from the traditional resentment of the borrower against the money lender when the date of payment comes around; it is said that while as a people we are generous to a fault when our emotions are aroused, freely giving our money and our lives, we do not, unemotionally, give up our prejudices. However, in the present circumstances does this statement fairly apply? Is it strictly prejudice that has made Congress decline to take the initiative in straightening out the matter of the Allied debts? Is it prejudice that has made the American people as a whole hesitate? The average American who has studied the attitude of European countries one to another has not failed to calculate the cost of their enormous armies and their bureaucracies, and has come to wonder if, after all, an outright gift of eleven or twelve billion dollars would really help in the process of reconstruction.

As the average American sees it, there has come to exist a false notion regarding the ability and responsibility of the United States in world matters. The fact that this country solved so many problems of the war should not mean, in his opinion, that this country ought to assume the numerous reconstruction responsibilities properly falling upon other countries—especially in cases where the governments of those countries insist upon the luxury of large armies and civil establishments, at the same time that debt compromises are mentioned because of their inability to meet their expenses and adjust their finances.

Europe's Financial and Moral Obligation

THERE is among a large part of the American people a definite conviction that foreign obligations due our government are fairly due, and that this country has neither a financial nor a moral right to free its debtors. As these people see it in the financial scale, a debt is a debt; the money which was borrowed from the United States during the war was not a gift, but a loan secured by the solemn obligations of responsible sovereign states to another sovereign state. As they see it in the moral scale, the balance on war account is not against us, but in our favor. We came to the help of the Allies at the critical juncture of the war. We ourselves were not immediately menaced by Germany, but entered the war wholly of our own free will and with nothing of economic power to gain. What we did saved Europe, and the cost to us was more than 100,000 American lives and the expenditure of $30,000,000,000 of wealth. Each of the Allies, at the time peace was signed, took reparations from the vanquished. We, on the other hand, were penalized in their behalf. We taxed ourselves to carry the burden of war obligations incurred for the Allies' advantage, and are still paying those taxes without any compensating material return. We have had no interest on the money we loaned. We have had no part of the indemnity. We have had no part in the territorial, commercial or other tangible advantages of the peace treaty.

From the Economic Angle

IT will be noted that in every argument set forth above the economic argument does not appear. Yet in the long run the economic argument offsets every other argument, and in the same manner that the laws of business are certain ultimately to determine the destiny of the German reparations, we may expect them ultimately to determine the destiny of the debts which are owed to this nation from abroad. Every dollar of those debts is rightly due us; there can be no argument against that. But apart from argument, we have to consider international obligations in the light of economic logic, stripped of the colorings of opinion and passion. It is when we do this that we come to appreciate that among the nations it is more than a case of "You shall pay!" as against "I won't!," and that the whole proposition calls for a patient study and practical determination of the question of how to adjust debts on a basis that will be equitable, that will permit payment, and that, above all, will restore nations in a way to bring universal prosperity and be for the benefit of all.

In the course of another year, with interest added to principal, the nations abroad will owe to the United States Government more than twelve billion dollars. On that sum, were it insisted that interest should begin next year, the annual interest requirement, would be not less than five hundred million dollars. Were a sinking fund adopted to cancel the debt within a period of twenty-five years, there would be the prospect of an annual payment of an additional four hundred million dollars.

The Ability to Pay Huge Debts

DOES anyone believe that these sums, in full, can be paid? Is there any conceivable way in which they might be paid? Up to date no way has been devised. Payment by Europe to ourselves of $900,000,000 yearly over any protracted period would have, so far as we can draw the picture today, a revolutionary effect upon world conditions. Relations of trade and commerce would be tremendously displaced. Forced to honor the signature of their notes and to meet the obligation of their debts, nations abroad would strive to pay the charges accruing against them by shipping gold or goods, and coincidentally would curtail their purchases here so that they might not sink deeper into our debt. Made effective, such a procedure would flood the United States with gold and imported goods, and at the same time take away our foreign markets. A combination of circumstances like that would bring disaster to our productive industry.

Whatever single countries might be capable of doing, Europe as a whole could not ship enough gold or goods, and economize sufficiently in American purchases, to balance more than a fraction of a yearly obligation of $900,000,000 to us. There is not enough gold available, while as for trade, the proposal that Europe, which has always in the past been our customer on a large scale, shall turn completely about, and war-broken though it is, ship vast quantities of articles here and at the same time stop buying, is out of the question.

Influence on Our Trade Position

WHOLLY apart, then, from every other consideration, we must expect that the problem of our international financial relations will in the long run be determined in the light of the commercial position of the United States among the nations of the world. The question goes beyond simple financial and moral obligations; it reaches down to the very foundations of our trade structure. Some one has aptly said that never has legal justice been more sharply divorced from reason and expediency than in the instance of the disposal of existing debts. Legal justice calls for their full payment; and, for that matter, one line of reasoning does the same thing. Francis W. Hirst, an Englishman, writing in the July number of the Yale Review, reasons as follows:

"The Americans have shown their philantrophy by a splendid effort to relieve the famine in Russia; but why should they lend money to Europe, or entertain any scheme for the reduction of war debts, so long as their money and their credit are certain to be thrown into a pool of bottomless deficiency or frittered away on preparations for another war?"

Legal justice and one line of reasoning notwithstanding, we may be sure that reasoning on all lines, and expediency, will in the long run determine the settlement of Europe's debts to us. The necessity of adjusting credit matters to our trade exigencies is too great to be ignored. As a creditor nation, practically self-sufficient, we stand in an unprecedented position. Having built up our home industries beyond home requirements, and having for decades sold our surplus in the export markets, we now face the prospect of a turnover in our trade balances, through enormous imports to be made in settlement of our accumulated export credits. Productive industry in this country is fearful of the consequences, and tariffs are being designed by Congress to prevent the inflow of foreign goods from rising too fast. It is all so contradictory; seeking to maintain our own productive activity at a high peak by keeping out the competition of imported goods, we nevertheless are looking forward to large repayments from abroad against existing credits, these repayments to be made in only one possible way—with goods.

Likelihood of the Future

FOR the sake of the future integrity of international financial obligations, action to determine what is to be done in the matter of international debt settlement will have to be deliberate, and any scheme for a general adjustment of debts will require painstaking attention. For any general cancellation of debts that bore signs of being forced by threats of repudiation might have future financial and commercial consequences of tremendous significance. Patient and painstaking thought must therefor be given to the question, for when action is finally taken, its effect will be far-reaching.

But in the meantime there is an emergency; confronted with this, it would seem most logical that the debts involved should be liquidated very slowly, and that even the interest payments, if they are soon to begin, should begin with small amounts, increasing slowly and by small degrees. Such a course would give time for our debtors to build up their resources, and give time also to our industries to accommodate themselves to the new conditions.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, August, 1922

BECAUSE of their effect on every phase of industrial activity, the strikes of the coal miners and railway craftsmen are commanding serious attention on the part of the business community. The up-swing of the business cycle, which had been in progress throughout the first half of 1922, giving good promise of continuing, has been measurably checked by the interruptions due to labor disturbances, and it is plain that the injury brought upon the industries of the country as a result of the curtailment of coal production and the tying up of transportation, even though the strikes terminate soon, will take a considerable time to remedy. The Federal Government has taken a hand in the effort to increase coal output and insure its distribution, but even with this help, business adjustments are foreshadowed for some time to come.

Wage struggles like those of the present were feared by forward-looking people all through the period of inflation which attended and followed the war, when every demand for a wage advance was granted, and when certain groups of workers gained the impression that henceforward they would regularly dictate their own working terms. Having in a period of tremendous activity gained an idea of its power to dominate, organized labor has sought to oppose nearly every effort to adjust its wages in conformity with the progress of deflation, and most of its strikes in the post-war period have been a resistance against economic forces, the object being not justice so much as special privilege.

Attitude of Public to Strikes

BOTH the coal and transportation strikes have met with almost universal condemnation, not only because of their object, but because they have come to threaten the welfare of the entire public by cutting off essentials of the country's industrial life. Sober-minded observers have not, however, gone so far in their condemnation of the strikes as to interpret them, as some newspapers have done, as evidences of a radicalism which threatens to undermine the social structure of the country. Violence has occurred among both the coal and railroad workers, with resultant property damage and loss of life; but after all, though there is no mistaking the menace of lawlessness and wilful murder, it is only a small part of the tens of thousands of men who are on strike who have been guilty of this, and the riots which occurred have been in widely separated sections of the country.

Changed Conditions of Past Two Years

RADICALISM is a word that has been used on innumerable occasions during the past few years to describe every conceivable condition; ever since the beginning of Russia's red rule, it has been the base word of phrases calculated to instil a fear that the whole structure of society was falling. Radicalism in its worst phase destroyed Russia and has had its more or less baneful effect on every country of continental Europe. But this country successfully overcame the red programs for communistic control some time ago, and it is when we look back over the span of the past few years and compare conditions existing today with the conditions which the socialists and communists promised, that we come to a true appreciation of the character of the industrial and political problem with which we now are faced.

There was unlimited talk at the close of the war about the great social changes that were to ensue. Labor control of industry; maximum wages; minimum work; profit-sharing; regulated prices; government operation; exaggerated forms of unionism—all seemed at the time to have gained a foothold, and their advocates predicted continuing success for them. There has been a wholesome reaction away from all of these things, and though strikes and strike violence would seem to mark a step back in the wrong direction, an analysis of the average American workman's mind would in all likelihood show that radicalism was less accountable for his present desire to strike than short-sighted leadership and an ignorance of the economic changes which have fundamentally altered conditions in the past two years.

There are and always will be extremists among us, but as a whole, the American people in every scale of life have proved themselves more conservative than any of the others who took a large part in the world war; indeed it would seem that it is their conservatism which led labor leaders to believe they would permit the maintenance of high wage schedules at this time, rather than actively oppose them. The condemnation of the strikes that are in progress, however,—like the condemnation in another direction of the political measures which have sought to grant special bonuses, subsidies and import tariffs—is an indication that the American people, though conservative, are not complacent, and are ready in the interest of the general welfare actively and energetically to oppose special concessions to special groups.

Low Cost of Business Borrowing

THE country's banking position has developed into one of uniform ease. Rates for money are the lowest in a number of years because of an abundance of funds which, due to the contributions of tremendous gold reserves and the recent commercial and industrial inactivity, have not yet found ready employment in ordinary business transactions. Easing credit conditions and a low cost of borrowing are favorable to business expansion, but in spite of a competitive bidding down of money rates—for with funds freely available in practically every part of the country it has come to that—there has been no notable enlargement of commercial and industrial loans. In order, therefore, to gain a profit on available balances, there is a tendency to employ surplus funds in non-liquid securities, the interest yield of which is better than the yield of acceptances, open market call loans, or even time loans. Strength of government and gilt-edged corporation issues has been one of the outstanding features of the financial markets lately; before the close of last month the fourth 4¼ per cent Liberty Bonds sold at the highest price that has been quoted for them —101¾. Two years ago these bonds were quoted as low as 82.

Increasing Reserves as a Factor

THERE is today an abundance of credit resources in the country, which bears a marked contrast to the shortage of two years ago. Not only are bank loans below their volume of 1920, but the country's gold reserves have increased $1,200,000,000 in the past two years, and are today more than ample for the legitimate needs of American business. Predictions which have recently been made that an expanding volume of business during the remainder of the year, coupled with the needs of the crop moving season, will tax credit resources and result in an advance of money rates, must be considered in the light of the loaning ability which is given the banks by the available reserves of gold. Business has been expanding more or less steadily through the elapsed portion of 1922, and there has been an advance in commodity prices which on an average amounts to more than 10 per cent. But business expansion and rising prices have made no impression on credit conditions, as money rates have indicated by moving steadily downward.

Of course, a situation like this cannot continue indefinitely, and, granted an early ending of labor strikes, a good crop yield, and a further strengthening of business confidence, a positive movement in the direction of credit expansion is bound presently to begin. Especially will this be so if there is a general interpretation that the improvement in sentiment and prices which has occurred is preparatory to a still more marked improvement.

Effect on the Longer Future

IT perhaps sounds far-fetched, with the prospect one of comfortable ease in the money market, to say that the broadest financial question which presents itself is that of bank credit inflation. It is like saying, in the midst of plenty, to beware of famine. We are apparently so far away from any condition of bank credit inflation that there are many people who, confronted with the question, would say that fears regarding it are wholly misplaced, while others would frankly welcome inflation as a change from the situation reflected by prevailing low rates.

True, so far as the dangers inherent in cheap money are concerned, warnings have up to now been followed by no untoward circumstances. The movements of business and finance which brought rising commodity and security prices have brought no corresponding expansion of banking credit—in fact, the Federal Reserve's direct rediscounts on July 26 were 80 per cent below those of a year ago, the decrease being $1,270,000,000, while banks generally are observing the lessons of caution and borrowers themselves hesitate about extending their lines. Signs would all seem to point away from the prospect of an early repetition of the disastrous inflation era which succeeded the armistice.

Still, progress along any road of business revival, with rising prices, is bound ultimately to call for credit expansion, and under the extraordinary conditions which now govern our banking machinery, credit expansion, unless properly controlled, will stir enthusiasm and lead directly into the highway of inflation.

The Riddle of the Gold Surplus

THE dislocations of world finance, by draining other countries of a large part of their gold during the past two years and pouring it into the United States, have created, among many portentous problems, one that sooner or later we shall be compelled to solve. That problem is how to keep the gold deluge from disrupting our financial and business organism. Gold is vitally needed by other countries to give stability to their credit and currency; at the same time it holds a menace for us. So dislocated is the mechanism of international exchange that the world's best thinkers and the strongest leaders have not solved the riddle. There is no present or remote sign of a turn in the gold tide away from our ports, and every week adds more to the surplus.

As a basis of credit, gold seeks occupation wherever it is lodged, and though the danger of a new inflation may not be immediate, and a measurable expansion of banking credit may take place before its symptoms make themselves clear, the danger is ahead, and only a wise credit control will avert it. The memory of borrowers, in face of new opportunities, is proverbially short, and no matter what may be the lessons of experience, if credit is made available more and more easily, and if banks continue to lower their rates in order to find employment for their available but idle funds, borrowers will be encouraged more and more to extend themselves in disregard of their real needs.

Policy of Federal Reserve

THIS forcefully raises the question of the Federal Reserve banking policy. Each sign for renewed money market ease this year has been given by a downward movement of the official rediscount rate, and each reduction here has kept pace with the rising tide of gold reserves. Although these reserves give promise of continuing to rise, it would seem that the time had come when the real purpose might be made effective for which the Federal Reserve system was organized; namely, to serve as a credit reservoir for use only when all other available sources of credit for commercial purposes had been utilized, and then only by the payment of a penalty over current money market rates. The responsibility of controlling the money situation will rest more than ever with the Federal Reserve Banks as time goes on; a policy of restraint will stabilize rates, whereas any further reduction in the official rediscount level, with a consequent softening in open market rates, would be an encouragement to borrowing.

The earning assets of the Reserve Banks have shrunk considerably, the total of bills (including those secured by government obligations) now on hand being just above $500,000,000, as compared with $1,700,000,000 a year ago and $3,120,000,000 at the high peak of November, 1920. During the period of inflation the Reserve Banks succeeded in building up their surpluses out of a handsome income earned through rediscounts, and there are those who would like to see the surpluses built up further through additional income. But the primary purpose of the Reserve Banks is not that of earning an income, and though their large overhead expenses make earnings a matter of consideration, this matter is of far less importance than that of exercising a control over the money market in a way to safeguard the business future of the nation.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, September, 1922.

DESPITE forces in the existing situation which are calculated to check progress and dull the edge of optimism, there is a tone to business sentiment throughout the United States that colors the outlook with favorable tints.

Strikes are exercising a direct hindrance on prosperity, and production and transportation are alike suffering because of the coal and railroad tie-ups; nevertheless, business confidence, on the threshold of autumn, is strengthened by the harvest prospects, the ease of money rates, the sound banking position, and the demonstration that has been given during the summer of the buying power of the American people. Moreover, it is influenced in no small degree by the upward course of security values. The stock market is not always infallible as an indicator of business trends, but its recent strength has had a considerable part in influencing business sentiment, especially as this strength has been manifested in the face of unfavorable tendencies abroad, and in the face of the labor disputes at home that were lately described by President Harding as "so serious, so menacing to the nation's welfare," that Congress was called upon to consider the matter.

There are many incidents which are indicative of improvement in the country's industrial and financial position, and those other incidents which are unfavorable and discouraging do not, after all, stop the world from moving. They are serious enough, to be sure, and require the utmost thought and care to bring about their correction. But up to the moment their force has not overcome the native optimism of the American people, backed up, as it is, by evidence of a strong business and financial condition. That this optimism is not a mere semblance of composure in the face of threatened calamity can be taken as a matter of course, for though nobody seeks to avoid the ominous signs of the times, nobody forgets, either, that the world has been overshadowed by ominous signs for a number of years, and not only has not gone down in disorder under them, but in many particulars and in most countries has actually progressed in spite of them.

Optimism Regarding International Affairs

THE easiest thing in recent years has been to prophesy that civilized nations would sink under the weight of adversity, credit disruption and militarism. Predictions of debacles have been made repeatedly and have not been fulfilled, so that the public, after a first feeling of skepticism at each repetition of the familiar formula, has come to disregard them to a considerable extent, greeting new events with a cheerful optimism and an assurance that, so far as they are unfavorable, they will be overcome. In international affairs this policy has not been altogether unjustified, for there are clear indications of improvement in other countries as well as the United States. If we except Germany, Austria and Russia, we note a betterment in the economic condition of Europe, one which is measured by the improvement of English, French and Italian exchange rates over this time last year.

Of course, making an exception of the countries mentioned is like making an exception of a terrible sore on the human body; the present and future health of Europe and the entire world is determined, more than anything else, by the wound that cuts across Europe and that, to date, shows no signs of healing. Germany's evil day is just now large in the public eye; progressive debasement has carried its currency headlong, to a point where two hundred marks have not the purchasing power that ten marks had a year ago, or that one mark had in 1919, at the time of the Peace of Versailles.

The story of the German mark is briefly told. At the beginning of the war, before its value began to diminish, four marks were worth nearly a dollar. A year ago 100 marks were the equivalent of a dollar, and a month ago 500. Before the close of August 2000 marks were needed to make a dollar. Here is a story of economic decay that has a very definite bearing on world affairs, for though it does not necessarily mean that any sudden catastrophe of annihilation hangs over Germany, it surely signifies a tragedy that will have its reaction on all countries with which Germany has dealings, particularly those to which it is indebted on account of indemnities.

The Broad Effects of Inflation

GERMANY'S experience with its prodigious issues of paper money, like the experience of Russia and Austria, is one that proves over again the vicious consequences, upon a whole people, of evil finance. The mark began to depreciate as its paper tokens began to appear in wrong proportion to its metallic reserves; the speed accelerated as the printing presses turned out more and more rapidly the billions and tens of billions of paper tokens.

Here is an illuminating comparison, showing how the speed of the printing presses has kept pace with the shrinking value of the mark: at the outbreak of the war, in July, 1914, the total volume of Germany's note circulation, as reported by the Reichsbank, was 1,890,000,000 marks. At the opening of last year the total was 35,700,000,000. At the opening of the present year the total was 122,900,000,000, and by August 23rd, the latest report at hand, it had reached 214,500,000,000. The increase in the single week preceding August 23rd was a little short of ten billion marks—to be exact, 9,892,000,000. How fantastic was this increase can be judged when attention is called to the fact that, according to the above comparison, the *daily addition* to the paper mark circulation of Germany in the middle of last month was almost equal to the *entire supply* as reported in 1914. We can now believe that when the history of the German mark comes to be written, the language used will be the same as that which tells about the experience of France with its assignats. Like causes bring like effects; reckless inflation in France 130 years ago brought about an effect that was described by one historian in the following terms—terms, by the way, which are coming to apply literally to Germany today, as they have already come to apply to Russia and Austria:

"It was now," wrote this historian of France, in describing conditions at the time the assignats flooded France as marks flood Germany today, "that there appeared in all their gravity the innumerable calamities, political, administrative, economic, military, moral and social, which inevitably follow the ever-growing issue of an irretrievably depreciated paper money; the ruin of the Treasury, crushed on the one hand by the insignificance of the revenues paid in paper of a nominal value, and, on the other, by the growth of the expenditures necessarily met (at least in large part) in actual values; the increasing difficulty of procuring food, the commodities more and more fleeing from a paper sunk so low; impotence and inertia of the administration, deprived by the worthlessness of this paper of all its means of activity; the upsetting of fortunes; the enrichment of all debtors, except the state, and the ruin of all creditors through the payment, in illusionary values, of sums contracted for and expressed in real values; universal demoralization."

Looking Into Europe's Future

THAT there should be, in the face of a condition like that existing in Central Europe, an improvement in the exchanges of other countries, is a striking demonstration of their inherent strength, and is worthy the notice of those who have painted a melancholy prospect for them. Too much rests, however, upon the outcome of what is going on in Central Europe to prophesy cheerfully; so long as Germany is unstabilized, and so long as its indemnity obligations remain in doubt, just so long will slow economic ruin proceed, just so long will political complications continue, and just so much harder will be the establishment of international confidence and order.

Because of the manner in which the economic and social affairs abroad are drifting, there is ample reason to look for some concerted action that will at least attempt to right matters. Unfortunately, so many recent attempts at concerted action have failed, through lack of international understanding and good will, that people are saying that international affairs ought now to be left to right themselves. Such a policy would of course be disastrous. The difficulties which beset Europe require positive measures for their correction. Concerted action to overcome these difficulties is necessary; nations cannot grapple with them alone. A broken bone may heal itself, and a wound may close, but the aid of a surgeon and proper nursing will improve matters. That, then, is why right leadership, courageous and compelling, is a primary necessity abroad today.

Influence of Railroad Strike

DEVELOPMENTS in the strike situation in this country have lately been both favorable and unfavorable; the good effect of a truce in the soft coal strike has been counterbalanced by the continuance of the strike in the anthracite coal fields and of the nation-wide strike of the 400,000 shopcraft workers on the railroads.

There can be no doubt, in view of the effect of the coal and railroad strikes, that from a national viewpoint no bigger question confronts us than that involving the power and responsibility of organized capital and organized labor. The controversies which we are witnessing are not simply a new chapter in the eternally differing interpretation of the mutual relationship of capital and labor. They involve, rather, the relationship of both capital and labor, under our present scheme of industrial organization, to the public. They involve the menace to the public that is contained in the power of a given group, in order to further its own ends, to shut the public off from the fuel and transportation on which it depends, and to bring domestic suffering and industrial paralysis.

Where the Strike Damage Falls

IF there were any way in which labor might strike so that its evil results would not fall primarily upon the public; if there could be a strike in which production were maintained and the only thing stopped were the profits of the employers from that production; then the question would be something different than it is. But under existing conditions the major damage wrought by a strike is not the loss to the employer; it is the loss to the community. Most strikes are not a direct coercion of the employer; they are an attempt to coerce the public into coercing the employer, and they are most effective in proportion as they are most damaging to the public interest. The theory that a strike of coal miners or railroad shopmen is a private affair, and that it is none of the public's business, is obsolete. Abandonment of a great public service of any kind, or the withdrawal of any kind of a public utility, whether or not it is accompanied by forcible opposition to strikebreakers, is a critical matter for the whole community. It touches not only the welfare of a class, but vitally concerns the well-being of all the people.

Principles Involved in Labor's Position

THIS does not mean antagonism to labor, nor does it mean opposition to unions as such. But it does imply government intervention when industrial strife contributes to the general breakdown of the whole nation while seeking to further the welfare of a single class. And it does imply the principle of abiding by decisions which are rendered by proper tribunals. Growth of industry in the United States, of the factory system, of large units, and of natural monopolies, long ago necessitated government regulation of capital and management. Some forms of capital combination were forbidden, others were regulated. Railroads, telephone companies and gas companies, for example, came to be controlled and regulated by commissions, for the general welfare, and were made to abide by their rulings.

In view of what we have lately seen, it is plain that a broad and sound inquiry is imperative, with the end in view of applying a like principle to labor—either of limiting the size and growth of labor organization, as the Government has done in certain of the industries, or of recognizing the inevitability of labor monopoly and controlling it, as is done with public utilities, by boards and commissions. There is no question of compulsory work or involuntary servitude involved in this; since the Civil War there has been no force operative in this country opposing the right of labor to quit work. Labor has that power and will continue to have it regardless of the unions. The power of the unions that requires restraint is of another kind. It is to quit work collectively, suddenly, without warning, and in defiance of such bodies as the Railroad Labor Board; to exercise threats and coercion; to prevent others from peaceably taking the places of those who have quit; to paralyze the industry of the country.

Regulation in the Public Interest

THIS power touches directly upon the social responsibilities of organized labor. By its very nature the whole question of wages can never be settled once for all. But what can be settled is the means to provide a just, prompt and peaceable method of adjusting disputes involving wages. What is needed is a means of submitting controversies to impartial boards of arbitration before strikes occur and not after they have run their disastrous course. What is needed, too, is a means of enforcing the decisions rendered.

Capital long ago submitted to the principle of government regulation, for there it found its salvation. Capital is wealth devoted to the general good for a definite return, and is regulated for the benefit of the general good. But if the country is to expand, and if capital is to go on being invested, it will require, in addition to regulation, protection and encouragement. Without at least a measure of reasonable safety and a fair return, when applied to the general good, less capital will be saved, less of that which is saved will be invested, and the total wealth output, which measures the prosperity of the whole people, will decline.

Importance of Capital's Place

THERE are those who say that as an economic principle this does not apply with the railroads. As they view it, any present loss in submitting to labor's demands would be confined only to those who have invested their money in the railroads, and not fall on the public. To them such a thing seems perfectly satisfactory; the railroads are there; the owners cannot withdraw them and take them away; they must be content with a small profit rather than none at all.

The capital of the country's railroad owners is indeed no longer fluid and subject to withdrawal; it is represented in roadbeds, steel rails, locomotives, cars and terminals; the capital of the coal producers is represented in mines and mining equipment. Old capital must stay where it is. But what of new capital? When old capital gains a relatively smaller return in any industry than is offered elsewhere, new capital will not flow into that industry. For more than a decade our transportation facilities have not kept pace with the country's growing needs because the railroads have ceased bidding as successfully as before for new capital.

The proposition is one which has its serious aspects, not, to be sure, because the danger is one of any sudden stoppage of transportation and consequent paralysis of industry, but because it signifies a slow throttling of industry. The country can grow only as its transportation arteries grow. So far as the railroads are concerned, new capital at this time would mean more railroad beds, ties, rails, equipment. It would mean bigger and wider opportunities for the country, of which the railroad workers themselves are a part. An absence of new capital, by the same token, would mean a shrinking of opportunities.

Mutual Benefit of A "Square Deal"

IF new capital is to be attracted to the railroads, capital must be permitted to have a share of the return from railroad operations. Capital is no less desirous than labor to find means whereby wage levels may be kept as high as the conditions of trade will permit; its forward-looking leaders are seeking more than ever to understand the wage earners and meet them in a spirit that is abreast of the era in which we are living. The same is true of those labor leaders who have a vision of their real responsibilities. For all of these leaders there is no greater service in the interest of the country than that of bringing their two elements into mutual respect and understanding, in a real spirit of cooperation.

More than anything else, then, there is required an eager desire on the part of all interests together to solve existing questions in a spirit of justice and mutual sympathy. Granted this, and granted a proper recognition of the fundamental doctrines upon which our economic structure is founded, the future will be secure.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

From the Address of JOHN MCHUGH, *President,* THE MECHANICS & METALS NATIONAL BANK *of the City of New York, before Clearing House Section of the American Bankers Association, Hotel Commodore, New York, Monday, October 2d, 1922.*

New York, October, 1922.

LOOKING away from our own immediate affairs and taking the wider view, most of us are at times a little bit bewildered by all that is going on about us. At every preceding convention of the American Bankers Association and its Sections, interesting and pressing problems have been the subject of discussion. But I wonder if at any previous convention there was opportunity for discussion of more important problems than those which confront us today, problems, I mean, that in every aspect have a tremendous and unavoidable bearing on the welfare of every community and every individual within the United States.

We came long ago to see that the war had brought a great turn in the tide of our affairs. The four years that have elapsed since the war was terminated have brought still another, and I believe greater, turn in the tide of affairs. This turn has not been marked with the vividness of the war, nor by such soul-stirring events as those of the tragic days which preceded the armistice. But it has brought us into an epoch that is altogether new, and we are today face to face with problems that, as I have just said, bear tremendously and in every aspect on our welfare.

I shall not, right off, present a pessimistic recital of these. Indeed, before I come to mention a single one of them, I wish to go on record in regard to their outcome that I am unqualifiedly optimistic. History has no record of civilization having collapsed under problems such as these we now face. On the contrary, its pages relate the fact that mankind not only faced such problems but overcame them and went forward in spite of them. So far as this country is concerned, I am optimistic because, after all, the initiative for overcoming existing difficulties, and for attaining true prosperity, lies in the hands of the most resourceful body of thinkers and the most constructive body of workers in the world—the American people.

Progress of Past Few Years

WHAT impresses me so profoundly, and what causes me to look so confidently to the future, is the way in which America has progressed in the past few years, despite every ominous cloud that has overshadowed the country, despite every blunder that has been made—and there have been many of them—and despite the waste that has attended all our national difficulties. Dating from the outbreak of the war one cloud after another has darkened our progress. Deflation has been a trying experience. Wealth, and what was thought to be wealth, in many instances has been wiped out. Costly mistakes have been made, alike in business, finance and politics. Strikes have followed one another and have brought loss to employers, employees and the public generally, and have seriously checked business.

Against all this, we have gone forward; more, we have gone forward so far that as a people we have come to occupy a place of world leadership which is as undisputed as it is unparalleled.

A brief review of our condition shows that we enjoy a strong banking position, an ease of money rates, a large industrial output, an abundant harvest, and a large buying power among the rank and file of the people. It shows an upward course of security values that reflects a large degree of confidence in the future. Money and credit for all legitimate purposes are plentiful and will continue so indefinitely. Crops have been good in the great agricultural sections of the country, the yield is abundant and far in excess of our domestic requirements, and the value of the harvest according to Government estimates, is $1,250,000,000 more than that of last year.

Contrast of Our Condition With Europe

IT may be thought that this optimistic view is somewhat narrow because it is national; that while we have made progress other people have gone back; that eventually misfortune abroad must tell on us. It is true that our happiness bears a contrast with that of other people. Europe in particular is weighted down with difficulties, and its peoples are blocked at every turn from attaining true comfort and prosperity. But even with regard to Europe, none of its difficulties have kept the world from moving, and what should offset pessimism is the repeated measure in which the difficulties of that continent, which were thought by every one too heavy to bear, have been tided over.

Go back to 1919, the first year after the war, and recall the extreme pessimism which pervaded public opinion regarding the then existing business and social conditions. That pessimism was not warranted. The public judgment was wrong, just as it has been wrong every time that an imminent social collapse or financial crash has been predicted for one or another European country. Europe has not by any means overcome its terrible war legacy, and at times it is true it does seem destined to go down under its weight. With certain exceptions, however, its countries have borne up for four years under that legacy, and have made headway against terrific odds. So there is every sound reason to believe that socially and economically Europe will eventually recover.

Paying the Price of War

EUROPE, by its present suffering, is paying a part of the price of the war that destroyed ten million lives, wiped out three empires, warped all conceptions of right and wrong, and dissipated the wealth accumulated over several generations. Russia is today poverty-stricken and isolated. Austria is no longer even a shadow of its former self; Germany bears a burden that drags heavily upon her. The misery of people in those countries which are the greatest sufferers from the war finds its reflection everywhere. It underlies, or at least directly affects, virtually every problem that confronts us.

Yet there is ground for confident hope regarding the future of Europe, and I believe that this hope will be increasingly realized. I am especially inclined to say this because Europe's chief difficulties are at last crystallized, and have forced an increasingly sympathetic treatment on the part of those men whose hostility to one another, until recently, and whose bitter jealousy and misguided national ambitions, kept them from coming to any common agreement.

Economic and Political Forces

A NOTABLE sign of change abroad is the recognition of the dominance of economic forces over political forces. The great mistake of those who drew the Peace Treaty of 1919 was that they set political forces over economic forces, and established borders and dictated policies on a basis of political expediency without proper regard for economic relationships. This mistake was carried forward, and so long as Europe's point of view was primarily political, no economic stabilization could be looked for. "Indeed," to quote from a recent letter from one of England's leading banks, "it may be said that the present sorry position of Europe is due to the refusal to face facts, a policy which seems to have dominated statesmen since the war was brought to an end."

It will be remembered that the Genoa conference and the Hague conference failed, and the Paris conference of the past summer disbanded without success, because of the hostile and unbending attitude which statesmen bore to one another. For the moment, matters continue for the most part in the hands of those same statesmen. They are showing, however, a marked change in their attitude toward one another and in their point of view. Tolerance, and a capacity to work out problems, must from now on be essentially the attributes of those entrusted with the practical supervision of existing affairs, if those affairs are to work out properly.

States, showed his understanding of this when he said last July in a speech made in London:

"America has given to the world the riches of a continent which but yesterday was a wilderness. Of course she is absorbed in her own affairs. How could she be otherwise? Her thought is in that tremendous structural and industrial work which has made her one of the greatest nations on the earth. That is a problem as close to her as our problems are to Europeans."

Our tremendous structural and industrial work, however, has been built up not in relation to our own markets alone. They have been built up to gain as well the benefits of the broad markets of the world. Our civilization is tied up very closely with the civilization of other people, and this means that our standard of living is dependent in a large degree upon the standard of living in other parts of the world. Therein lies our interest, beyond the common human interest in our fellow man, in hastening the recovering of Europe.

Allies' Debts to United States

THE time, then, has come to determine upon a definite policy with regard to the Allied debts to the treasury of the United States. Other speakers during this convention week are to make this theme their topic, and I will not therefore presume to anticipate what they are to say. At the same time I feel that my discussion would be incomplete without reference to these debts, which next to Germany's reparations obligations, comprise the world's greatest and most complicated single problem of international finance.

To date these debts amount to approximately $11,700,000,000, adding accrued interest to principal. The debts are fairly due. At no time were they considered in the nature of a free gift. On the contrary, they have been recognized and acknowledged as the solemn obligations of individual sovereign states, and there has been no suggestion from a single one of these of repudiation. At the same time, circumstances have arisen so far beyond the control of those concerned that the proposition is seriously made to cancel these debts in whole or in part. This involves compromise, not repudiation. Compromise is prompted by the abnormal state of international exchanges, the difficulties of the world's credit problems, and the circumstances under which the obligations to us were contracted.

With respect to the debts of other governments to us, growing out of the war, the determination of the question whether they should be cancelled in full, in part, or not at all, should be given careful study by the American people generally, for the reason that we can progress to a solution only when and so far as public opinion and understanding approve. By dealing in a large-visioned and liberal manner with the debts due us, and exercising our credit power wisely, we can go a long way to mitigate the circumstances which keep Europe in turmoil.

Possible Benefits from Cancellation

IF any portion of the debt be cancelled eventually, a direct benefit may result to us even though at first it would look as though American taxpayers were being penalized for the benefit of others. A partial cancellation would be a contribution to world stability on our part if it served the purpose of compelling an adjustment of the difficulties which now serve as a curse on Europe. Such a partial cancellation could readily be made contingent upon agreements as to the balancing of budgets, the curtailment of inflation, the reduction of armaments and the elimination of governmental waste.

There is to be considered in connection with the compromising of foreign government loans, the extension of new loans to those very interests who are relieved from existing obligations. As time goes on, new loans will be called for; measures will be taken abroad to secure our surplus gold; loans will be negotiated in the interest of trade. With a capacity for production beyond our own immediate requirements, we shall continue to look to foreign markets for an outlet for that over-production. Our cotton, wheat, copper and oil, to mention only a few raw products, and a large number of manufactured materials, are produced in greater quantity than we ourselves can use. Whether we will go on with the over-production in the future depends on whether foreign markets absorb our surplus. And that, in turn, depends in large measure on whether we can and will adequately finance our foreign trade.

Future of Our Foreign Trade

THIS will continue to be one of our national problems for some time to come. But do not misunderstand me in this: It is not my purpose to

In brief, then, America has contributed handsomely, although unintentionally, to the payment of Germany's war penalty. How costly the operation has been may be judged when it is pointed out that at current quotations, the marks for which an American paid, let us say $100, are worth less than $2. This difference, multiplied by as many times as there are Americans who bought marks, measures our present loss through Germany's violation of every sound rule of finance, by which, when all is said and done, so many of our people have been victimized.

The Future of Germany

THE German mark has ceased to be the attractive investment it was heretofore thought to be by Americans who had confidence in German thrift and industry; hence the volume of American dollars that was going into marks has greatly decreased. And it is safe to assume that this same attitude has been taken in other countries where the public heretofore bought heavily of marks. The result has been a greatly reduced addition to Germany's credit balances abroad.

With its marks unable to establish large foreign balances, without a substantial foreign trade balance, and without credit against which it can borrow, Germany is hard set to meet the reparation terms, hence we have every reason to believe that an early understanding will be reached which will avert utter chaos with respect to Germany's financial affairs.

From a trade viewpoint, our interest in all of this is very direct. Germany as an industrial nation has always occupied a large place in the trade of the world. Although an exporter of finished goods in competition with ourselves, it has been a large buyer of our raw products. We look for Germany in the future to buy heavily from the United States, and we have, therefore, more than a passing interest in the terms that are fixed upon Germany by which its obligations are to be permanently established, and by which its future place, economically among the nations, is to be determined.

Complexities of International Finance

WITH regard to international financial relations generally, it is an intolerable situation that we contemplate at present, no matter what the angle of our view. As for the part we have to take in mending matters, that must, of course depend upon how Europe's statesmen rise to their opportunity; it must be governed by their plans. When it is seen that the point has been reached where America can be really helpful in working out the solutions, I have no doubt that we will change our present inclination to stand aloof, and will, both with our counsel and tangible aid, intelligently directed, do our proper part in solving the major difficulties which beset the world.

Though this may still be a time for "watchful waiting," it would be helpful to ourselves, as well as others, were we officially represented abroad on the commissions which are striving to settle controversial questions and aid recovery. Our representatives would not need to have the power to involve the United States in tangible commitments, but they could have a voice in the settlement of disputes and in the consideration of those measures which effect the destiny of nations which are debtors to the United States and are the principal oversea buyers of our products.

I have seen copies of cartoons appearing in foreign newspapers which show Uncle Sam, sleek and satisfied, seated at his door comfortably enjoying a cigar, while across the water from him Europe is shown burning up, its miserable people helplessly looking on. To make their point, cartoonists exaggerate their subjects; still, there is enough in the pictures which are appearing to make us ask ourselves seriously whether Europe's condition, which is a result of its war calamity, has not a larger bearing on America's destiny than some of us are still willing to recognize.

Overcoming Isolation Barriers

I AM not going to offer criticism of American isolation. Nor shall I plead for less absorption in our own affairs. If we are blessed with courageous and clearsighted leadership, we are bound eventually to go beyond our isolation barrier as far as we should go, and in any case, time is bound to widen our vision and adjust our absorption in domestic affairs. Our own affairs must of course always come first; your home and family, and mine, mean more to you and me than anything else in the world. Then, too, there is so much for us to do at home; opportunity was never greater. Sir Auckland Geddes, the British Ambassador to the United

Stabilization the Remedy

THE fundamental remedy for the plight of Europe is what may be called, in a general term, stabilization. We have heard time after time that stabilization cannot be artificially hastened, but that it must come as a result of the remorseless working of economic laws. But as a matter of common sense, Europe's leaders cannot permit chaos to dominate their acts without some intelligent and cooperative effort to put matters right. The economic weakness of every country abroad springs from the destruction of international confidence. It can be swept away only as international confidence is restored, and as the interchange of credit, on a firm basis, is removed.

This means that international obligations must be adjusted in a way that will permit individual nations to progress. It means a balancing of national budgets, an ending of the orgy of inflation, and a return of currencies—perhaps with the help of our gold—to a fixed and honest standard.

A unity of ideas among the nations regarding credit is a prerequisite of any constructive action with respect to their most pressing problems. Hence, before gold begins to flow back to Europe, before disordered currencies are taken in hand, and before international exchange is regularized, a real basis for peacetime relations must be found, and then made fixed and certain. The huge debts due by nations to one another must be compromised where necessary, and then funded. New long-term credits, for the purpose of stabilization, must be granted.

Our Part in Restoring Order

ALL of us recognize that what Europe really needs is a general settlement involving peace and disarmament, a balancing of government budgets, a return to stable and honest money, and a removal of trade barriers. These involve a writing off of losses, a writing down of debts, a curtailment of army, navy and government expenses, an institution of effective methods of taxation, a re-establishment of international financial relations.

These problems are primarily for Europe to determine, and perhaps it behooves us to refrain, as we have been advised to do, from giving too much "smug advice" for solving them. But they are related very directly to the trade and prosperity of the United States, as we have already learned, hence it cannot be considered bad taste on our part to give voice to the hope that these problems will soon come to settlement through negotiation and conference, and in a spirit of tolerance and good will.

Some of us perhaps feel that we have no interest in the fixing of the German reparations. As a matter of fact, this particular proposition has a very significant interest for us, not only because of its fundamental relations to international trade and finance, but because of the extent of America's contribution thus far to the payment of the reparations.

American Investments in Marks

THERE are no exact figures available, but it is conservative to say that several hundred million dollars of American money have been invested (with the hope of profit on the part of the individual buyer; it is true) in German marks, at prices ranging from 8 cents downward. The Comptroller of the Currency has estimated the total of all foreign currencies bought by Americans at $500,000,000; the bulk of this outlay, in all likelihood, was for marks. In addition to the paper marks actually owned and held here in the shape of currency, there is also a large amount of marks purchased through regular banking channels and held within Germany itself, on deposit in banks.

In this manner, American funds, with the funds of people of other countries outside of Germany, have been placed at the disposal of Germany, so that instead of Germany itself making the full payments for reparations, nations that were victorious in the war have made a very considerable contribution.

The process has been simple enough. Germany has no favorable foreign trade balance out of which to meet its foreign obligations, and has been unable to secure outside loans for that purpose. Hence, those in control of its finances have turned out billions and tens of billions of paper marks, selling them in large part in outside countries for whatever gold value they could obtain, and turning that gold value over in payment to Germany's creditors. By selling marks the German interests have established balances in New York and elsewhere, against which they have drawn to apply on their reparation payments.

maintain that the United States should henceforth indefinitely turn over every year a great surplus of goods to consumers abroad, piling up endless credit balances until they grow so large as to destroy all hope of their settlement. Europe indeed needs gold, goods and credit, and we are in a position to furnish them. The increase of our investments in foreign securities would enable foreigners forthwith to increase their buying power, and in that degree would enlarge our exports. This would mean shipping goods abroad on credit, and every one familiar with the history of the past few years recognizes that today's economic maladjustment between Europe and the United States traces its cause to that practice. Europe gave its notes for billions of dollars worth of American goods, and the result has been an unbalancing of the international scalepans to a degree that would have been regarded as inconceivable before the war.

Additional foreign investments by the United States will not constitute a permanent remedy for Europe's malady except on one condition; that is, if they are followed by a vast increase in Europe's productivity, resulting in large annual payments to us against the charges accruing on these investments. If we receive such payments in the form of goods, can we hope, other things being equal, to maintain a permanent large excess of exports over imports? The answer quite obviously is "no." Our commerce needs to be carried forward on the primary principle of an exchange of goods; imports of those things which we do not produce cheaply should balance as far as possible the export of those things which we produce in abundance.

Where credits are from now on granted to finance a surplus of exports over imports, they should be granted with the utmost care, with a full appreciation of their proper relation to the primary principle of foreign trade, and with a definite understanding regarding their payment.

Looking Toward Future Prosperity

IN considering all these things we must look forward to the time when Europe recovers its place in trade, and we must prepare ourselves for the inevitable adjustments which are to occur. We shall not always be coincidentally the world's greatest creditor and export nation on balances. Nor, I take it, would any of us want to be.

The moral and financial power of the United States is greater than has ever been known of any nation in civilized history, and in considering this in connection with all our international problems, we should keep in mind that we, as the great creditor nation of the world, occupy a position directly opposite to that which we occupied prior to the war, and it is well to have in mind, too, that by helping others to help themselves we shall indirectly help ourselves, and reflection will be found in improved domestic conditions and values.

The Strength of America

AMERICA can afford to look forward with assurance to its future, not only because of its supreme strength and the intelligence and adaptability of its people, but because every lesson of its history teaches that in overcoming its crises it has always given a new and firmer direction to its prosperity. The amazing thing about our complex civilization is that every situation, supposedly unsolvable, has been solved, and that through it all our civilization has gone forward to higher levels.

I have confidence that if our important problems receive the careful thought and study they are entitled to, on the part of the public generally, the correct solution of all of them will be found. But let us face them and not temporize with them. I say this because I feel that the civilization of the future rests in no small measure on American manhood. That it will go forward is a conclusion which none of us will question for a moment. But to carry it forward, direction and guidance are needed. This means leadership. "Time and nature," wrote Ralph Waldo Emerson in one of his famous essays, "yield us many gifts, but not yet the timely man." Let us believe that what Emerson wrote fifty years ago will not apply now; this truly is a time, more than ever, for "timely" men.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, November, 1922.

CONFIDENCE regarding the business outlook is quite general, owing to the rapid improvement in trade conditions that has occurred over the greater part of the United States. Expanding industrial output, a general employment of labor, a marked increase in railroad traffic, rising prices, wage advances, enlarged bank clearings: all have contributed to stimulate confidence and buoy hopes for the future.

Taking the country as a whole, trade is better than a year ago, although of course all indications are not favorable in the same degree, nor does every section of the country share alike in the condition that gives an optimistic tone to nearly every business discussion. There is an irregularity to the advance which has occurred in prices, and certain farm products are lagging, so that the buying power of the West's great productive industries continues to be curtailed. Still, expansion is sufficiently pronounced on the whole to bring about a sharp contrast in business volume and earnings with a short time ago, and there is substantial foundation for the cheerful views which are entertained and for the expectation of further expansion on sound lines.

Basically, conditions in the United States are more favorable to business expansion than at any time since the climax, in 1920, of the hysterical post-war boom. Judge E. H. Gary, Chairman of the United States Steel Corporation, in an address in New York on October 27th, said that "there are no obstacles to continued prosperity in the iron and steel business of the United States, except such as may arise from interference with the natural course of supply and demand." What holds true of the iron and steel business holds true of business generally, though there are some people who attribute the improvement that is under way entirely to what they term "secondary inflation," and suggest that the improvement is wholly apart from basic conditions, being stimulated by the comparative ease of money rates and the great mass of unemployed credit that has piled up.

Influence of the Money Market

ACCUMULATION of idle funds, following such a severe period of adjustment as that through which the business world has passed, has lowered money rates, and undoubtedly the very fact that rates are low has had an important effect in encouraging borrowers to resort to credit. But with respect to the so-called "secondary inflation," it should be clear that mere availability of credit on cheap terms would not, in and of itself, stimulate industry if all other considerations were opposed to betterment. In conjunction with plentiful funds and easy money there has been a substantial improvement in basic conditions, else the trade betterment now under way would be feeble at best, and would soon thin out. We have been virtually free for some time from the restraint which the so-called frozen credits of 1920 and 1921 exercised, and we have gone beyond the stabilization point of commodity prices, reached early this year when the downward sweep was permanently arrested. In addition, there are evidences in various trades of an abandonment of the policy of hand-to-mouth purchases, and an adoption on the part of manufacturers and merchants alike of a more liberal buying attitude. These factors, combined with the completion of writing down of inventories, the abundant harvest of 1922, and the assurances given, even before election, of political sanity throughout the country, have all combined to make the situation what it is, and to stimulate confidence in the outlook.

Movement of Rates in Future

EVER since the autumn of 1920, the country has been in a period of constantly increasing money supply. There are many indications that this period has practically run its course; if these indications are correct, it is logical to look for a slight turn in interest rates. There is still an abundance of available credit, but the opinion is nevertheless growing that money rates have passed their lowest point of the present movement, and that the tendency will now be toward slightly higher levels. Conditions warrant no striking upward movement of rates.

Were we in a position to base conclusions on the shortage of real capital throughout the world, it would be reasonable at this time to say that the rate of interest for permanent investment would soon make its effect felt in advancing rates for permanent and temporary funds alike. With the outlet for investment in so many countries blocked, we cannot for the present consider the world as a unit in either an investment or money market sense, and, of course, with money market rates in the United States influenced by the tremendous accumulation of foreign gold, it must be acknowledged that the rate of interest for temporary employment of floating resources is not likely to be carried to any immediately high levels. In the long run, the rate of interest on investment funds must govern the money market rate, and if next year any semblance of order comes in the world's financial affairs, the relationship of the two may begin to manifest itself in a new light.

World's Need of Goods and Credit

THERE is no doubt that the world's total volume of production continues much below what it was during the war, and below the actual needs of civilized countries, with the consequence that surplus stocks of manufactured goods are exhausted in some cases, and very low in others. What is needed is an increase in production, distribution, buying power and credit. Every discussion of the world's needs goes back to those four particular headings; the central heading that we keep coming to, and that we will keep coming to, is that of credit.

The war and the subsequent conditions of peace strained the world's credit system to the utmost, yet commerce still counts for its existence upon credit, and stakes its future upon the continuing acceptance of the principles of credit. The whole fabric of trade, national and international, is knit together by the obligations given by debtors to creditors, and the success of our trade in the future, we may take it, will be tested by our readiness to extend credit against notes and bonds payable in the future, and by the assurance which is given that those notes and bonds will be payable at maturity.

There is just now a large amount of credit available in the United States; given a condition in which the surplus might be permanently employed, and given a condition in which foreign borrowers were placed in a position to command a part of the surplus, a change would soon make itself seen. In the long run the price of credit is governed, after all, by international forces, and though this truth has not been marked over the course of the past two years, it will be so in time to come. How far off that time is remains to be seen; there are many matters to be adjusted abroad before funds flow freely out of this country for either temporary or permanent investment.

Germany's Present Position in Finance

AT the moment the world's eyes are converged on Germany, and on what has come to be regarded as its financial disintegration. What a week, or a month, or a year hence holds for Germany is entirely beyond the realm of safe prediction. Its currency, progressively debased by prodigious issues of irredeemable paper notes, has followed the course of the French assignats and the continental currency of the 18th century, and the Austrian crown of the present era. Its purchasing power, having fallen far, is almost gone. Before the close of October 4,000 marks, which at one time were equivalent to $1,000 in our funds, had a value equivalent to one American dollar.

The effect of the collapse of the mark has been told over and over, until it has come to be a familiar story. But now the story is coming to have a new variation, one that has a tremendous significance on the welfare of the German people, and, through them, on the welfare of all people on whom Germany's prosperity or adversity has any bearing. This variation is found in the growing refusal of the German people themselves to accept the mark, and in their resort to barter, wherever possible, rather than to remain any longer at the mercy of their tottering monetary system. Up to a very short time ago the German people on the whole could not, or would not, accept the outside world's judgment regarding the direction in which the mark was headed; the mark was for them the accepted standard of value and the familiar medium of exchange, and they readily bought and sold goods for marks, accepted wages in marks, made contracts in marks—in short conducted their business in the terms of their own currency, just as freely as Englishmen conducted their business in terms of pounds, Frenchmen in terms of francs, and Americans in terms of dollars.

Devotion of People to Their Currency

THIS was in accordance with human nature and with the custom and necessities of the daily life of Germany's sixty million people, who for generations had used a single money token, until it became a part of their existence. Unstable as their money became, through inflation, it was still, to the untutored minds of millions of people, the currency of their trade, and as such the only currency they knew. It is hard to break the custom and faith of generations, and so long as the confidence of the people in their currency continued it was to be expected that they would continue to produce, sell and trade in the terms of that currency, adjusting prices and wages upward in inverse ratio to the debasement of the currency, and even entering upon future contracts in instances where they could determine for any given time what they would have to pay for labor, materials, transportation, etc.

But now, with the mark valued in the exchanges at a thousandth part of its gold parity, with the printing presses continuing to turn out millions of new notes every day, until the total of outstanding circulating notes approaches 400,000,000,000 marks, and with the government openly confessing itself helpless to correct matters, the confidence in the mark within Germany is at last shaken—just as it long ago came to be shaken outside—and the next step is one that, to those who are watching developments, must be regarded with extreme interest.

Substituting Barter in Trade

FOR the moment, those inhabitants of Germany who cannot do otherwise continue to use marks; business within the country maintains its activity, and though hardship is being suffered, the rising course of mark prices gives a continuing semblance of prosperity. But wherever it can be done, the mark is shunned; the law has been invoked to compel its continued use, still the practice grows of calculating prices of domestic transactions in dollars, guilders, francs and pounds. Moreover, barter has taken the place of cash transactions wherever practicable; press dispatches give many instances of this, and the following examples of barter terms are indicative of the way in which matters are developing:

> The Weimar board governing the agricultural schools at Triptis and Marksujl has fixed the tuition for the winter term in rye instead of in money. Thuringians will pay one and one-half centners (hundred weights) for the semester, and non-residents of Thuringia two centners.
>
> The Saxon Thuringian Power Co., at Auma, has announced that it will receive, instead of cash, ten eggs, three pounds of wheat flour or a quarter of a centner of potatoes for each kilowatt hour of electricity consumed.
>
> Naumberg and Braunschweig physicians state that henceforth all rural patients will be expected to pay for medical attention in produce at its pre-war cost. The pre-war price of bread was recently fixed by Magdeburg doctors as a basis of payment.

With its people unable to buy and sell freely, or to conduct any business on credit with assurance of profit, Germany is at a turning of the way, for foreign currency is scarce and barter can hardly be a substitute for cash transactions in a country so highly industrialized that a large percentage of its inhabitants are city workers who gain their livelihood by rendering services which are not immediately exchangeable for eggs, potatoes or bread. Germany's population is too great, and the distribution of urban and rural dwellers is too complex, for the people to go all the way back to the primitive conditions signified by pure barter, in which each family lives on the land and supplies its wants by its own production and by exchange with its neighbor.

What the Immediate Future Holds

A BREAKDOWN of confidence always has an ominous meaning, and though in Germany it may not mean an immediate industrial collapse or impoverishment of the people, it signifies hardship for the rank and file and a vast readjustment of business and trade relationships. Even those who have given only cursory thought to the causes underlying the sinking of the mark must see that there can be no hope of restoring it to its old value. With more paper notes added every day to the outstanding supply, and with the government confessing itself unable to stem the tide which it originally set loose, the substantial breakdown of the present system means that the mark is far beyond anything like full redemption and, just as occurred in this country after the Revolutionary War and in France after its revolution, values must ultimately come to be expressed wholly in new terms.

What these new terms will be, and how they will come about, are for the moment matters of mere guess work. As pointed out by those who have given thought to the problem, it is greatly complicated by the fact that the paper circulation of Germany consists not of government money but of notes issued by the Reichsbank, and in theory secured by the realizable assets of that institution. These assets consist in overwhelmingly large proportion of the German Government's promises to pay; still the government, intent upon establishing a new currency, cannot cancel, outright, the notes of a banking institution.

To have a new form of unsecured currency run along side by side with the old would not help matters, nor is it to be expected that foreign currency, in the present extraordinary condition of affairs, can fill the void. In order to obtain the currency of other countries, Germany would have to offer something in return, and its export trade is woefully inadequate. It is easy enough for us, at this distance, to prescribe for Germany, saying that its exports must increase, its finances must be reformed, its budget must be balanced, its currency must be stabilized and a loan must be floated to take care of current obligations. An off-hand prescription like that is one thing. Putting it into practical effect is something entirely different.

Outcome of Germany's Finances

FOR the present the government in Germany is at the mercy of forces which at one time operated in its interest but which it no longer controls; it fears for political reasons to resort to taxation drastic enough to balance the national budget and thus stop inflation, and even if it did dare, the power of the people to meet the imposts is under existing conditions too small to have the desired effect.

Notwithstanding this, it is from the point of view of the tax-paying power of the people that the question of Germany's future must be approached. And that is why the plan of reparations, which calls for a continuing export of wealth from Germany without compensating import of wealth, has so large a bearing in the case. German leaders profess that their country could go forward and overcome all its difficulties were a moratorium to relieve the pressure of its external obligations.

Hence the interest in the proposals made within Germany that the nation declare itself bankrupt and thus bring about a condition like that which would occur if a commercial enterprise were placed in the hands of a committee of creditors. Bankruptcy for Germany is a term open to a number of interpretations; if it were to mean that Germany desired to repudiate outright its currency, that, as the economic students have explained it, would be a wholly different matter than if it confessed inability to meet future reparation payments, and it would still be different than if it were to default paying the current interest on its internal indebtedness. Government insolvency has been known before; Turkey, China, Greece and Portugal, as well as certain of the Central American states, are recalled as having defaulted in interest payments on loans floated by them in foreign markets. Government insolvency for Germany, if it were formally acknowledged, would mean something more than it meant for those countries. Conceivably, however, it might mean a general combination of default on internal and external debts, and a repudiation of currency.

To work out a condition like that would impose a prodigious task upon those who might intervene to establish order, for apart from all social and political considerations, it would involve coincidently a reorganization of internal debts, a revision of reparations, a supervision of public revenues and expenses, and last, but by no means least, an establishment of an entirely new and stable currency system. The task would be one surpassing any in national finance that has ever been attempted before.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, December, 1922.

PERIODS of prosperity and depression are often the product of men's imagination as much as they are of actual tangible conditions. Three years ago prosperity prevailed throughout the United States; there was an intense industrial and commercial activity, and everywhere prices moved upward because of an excess of demand over supply. Early in 1920 conditions reversed themselves, and though human needs were the same as before, business reacted, demand for goods fell short of the supply, and prices collapsed. Lately there has been a renewal of industrial and commercial activity, and though human needs are not vastly changed, buying has increased and prices have moved upward.

In the short period which has elapsed since last spring, when the period of deflation which began in 1920 ran its course, it has been made remarkably clear that the force of the buying power of the rank and file of the American people, when that buying power is operating, is tremendous. The American temperament is exemplified by the contrast which the present current of buying bears with that of as recently as six months or a year ago; either we take fright all together or buy all together, and just now the spirit of buying has changed the business aspect of the country from one of sagging prices, accumulating stocks and unemployment, to one of firm prices, diminishing commodity supplies, and full employment of labor.

On the whole, the recent business situation is one that is marked by a fair measure of prosperity, and though signs of caution and reactionary tendencies are seen here and there, virtually every trade index shows the improvement of the autumn months fairly well maintained.

Signs indicating favorable conditions for months ahead have stimulated optimism; in addition there is the realization that the year now closing has been one of adjustment in many directions, especially that of credit. It is worthy of note that prevailing optimism is in face of a continued curtailment in our foreign trade, which prompts the thought that were conditions in other parts of the world as favorable at the moment as they are, generally speaking, in the United States, there would be little cause to exercise restraint upon the imagination. Economists tell us that a 5 per cent variation either way from the point where supply and demand meet is sufficient to dominate the whole price structure of industry; that, for example, if the supply of goods is 5 per cent greater than the demand, prices fall; that if the demand is 5 per cent greater than the supply, prices rise. Were conditions on the continent of Europe favorable—were the purchasing ability of its 400,000,000 people, indeed, only a fraction of what it was during the war—the effect on our industrial activity and price structure would be pronounced. Foreign purchases, added to the domestic orders that now are making their effect felt, would widen the margin between supply and demand, with unmistakable consequences on our business life.

Effect of Domestic and Foreign Influences

DOMESTIC influences are largely in control of our domestic affairs; still, experience requires that a broad view be taken of the fundamental influences which are operating upon our affairs, and in every case it is only to be expected that the broad view should extend beyond the mere confines of our domestic markets. While it is recognized that, in ordinary cycles of trade, expansion may find its primary cause in the building up of capital and credit resources of a single country, and may be followed by prosperity when that building up process is carried far, it has been apparent all along that the cycle through which we are passing has succeeded one of depression which found its primary cause in capital and credit exhaustion, not in any single part of the world, but in the world at large. It is apparent, then, that the return of a full and lasting prosperity depends not upon local, but world conditions. The world's tremendous war waste still remains to be made up, and upon the efforts of people everywhere to restore that waste depends the world's ultimate emergence into a real cycle of prosperity. Although for the moment events would seem to contradict this, the prosperity of our own industries is tied up very closely with the capital and credit of people overseas, hence we have a vital interest in the efforts of those people, especially in Europe, to regain and improve their positions, for their efforts will lead ultimately to added prosperity here. Europe is now sadly impoverished, and an impoverished customer for our wares is not one to contribute greatly to our wealth.

Relationship of Business and Politics

IN view of the present business activity, and in view of the scope of the domestic buying, it would appear that the upswing of the business cycle, having gained momentum, will continue for some time, always allowing, of course, for possible interruptions which may come through interference with the natural flow of the forces of supply and demand. There are indications that this may be attempted by heady and impatient individuals whose discontent with the existing order was encouraged even more than before by the outcome of the November election. Attempts to correct economic ills by a more positive alignment of people into class groups, and by legislation, may be expected to increase rather than decrease.

The tendency to promote radical movements, such as those designed to "liberalize" the Federal Reserve System, "nationalize" the railroads and coal mines, "emancipate" labor, "equalize" tax burdens and make prosperity easy for all, will be watched with a great deal of interest in coming months. Although the Administration at Washington on the whole controls both houses of Congress, certain groups of both major political parties, who are variously termed as radicals, progressives and extremists, hold a balance of power and may seek to enforce legislation that is hostile to the country's best interests.

Two Tendencies of the Times

THE present session of Congress, which terminates on March 4th, has an overcrowded calendar; moreover, the different political groups will be so aligned against one another that serious legislative mistakes may not, after all, occur. Still, Washington occupies a large part in business thoughts and plans, for, as the President of the American Bankers Association pointed out in his address before the recent convention of that association in New York, "the two tendencies which today need most careful diagnosis and handling, in so far as their effect upon the future of our nation internally is concerned are, first, class movements, the outgrowth of social and economic unrest, which tend to advance the interests of one group at the expense of the nation as a whole; and, second, paternalism in government, which finds encouragement in the assumption that government is the final resting place for all the trials and tribulations of the people and possesses some mysterious power for the solution of every trouble, real and fancied."

Help for Farming Communities

THE mood of the agricultural communities is one that has a large influence on the country's legislators, some of whom would solve the troubles responsible for that mood by special enactments. Although, on the whole, the American farmer has large crops this year, he has not enjoyed any such measure of prosperity as he had hoped for; as a matter of fact it has come to be a commonplace to say that the low market for farm products, and the farmer's other troubles, have seriously impaired the Middle West's financial standing and purchasing power.

The forces responsible for this are variously described. We are told that the farmer's distress comes from a lack of proper credit relief. We are told that his need is for a new system of warehousing and marketing, for adequate transportation facilities, and lower freight rates. We are told that his need is to diversify his efforts, devoting his time to making money in industrial pursuits in the months when farm work is not pressing. We are told further that he is the victim of a maladjustment of prices, in which the things he has to buy are too high in comparison with what he has to sell.

No one disputes the importance of any of these factors which contribute to the farmer's unhappy state. Credit facilities for financing his marketing operations, relief from the railroad congestion, cheap transportation, and a readjustment of prices so that he may buy the things he needs without impoverishing himself, all are essential to the farmer's continuing prosperity. Deflation, which brought down the level of those things which the farmer has to sell, did not bring down in any like degree the level of labor and rents, which dominate the cost of what he has to pay.

Where Chief Difficulty Lies

ALL these factors are generally recognized as having made the burden of the agricultural community a heavy one. But beyond and above all these factors, the farmer's chief need is an adequate market for his products. A certain part of his output cannot be consumed at home; it must be sold to foreign buyers if he is to earn a fair living. His distress, such as it is, traces itself directly to the impaired purchasing power of overseas markets.

It is Europe, then, that holds the solution to the West's troubles; when the war demand was at its height the farm prosperity that came from fulfilling that demand offset all other considerations. It is roughly figured that the market for 30 per cent of our wheat output, and 50 per cent of our cotton output, is abroad; thus the restoration of the purchasing power of foreign markets has a vital interest for the American farmer, for until that comes about there must be a constant adjustment of output in the United States, together with an adjustment of prices to their proper relationships.

Is Period of Adjustment Ended?

FOR the immediate future, it would appear that even though business goes on improving, the problems of adjustment and alignment will continue to be met at every turn, just as they were met through the months of the deflation period. The process of bringing buying and a selling power together at a level that is commonly satisfactory will have to go on; that it will not be easy may be judged by recent experiences in the matter of bringing production and labor costs down to a level where the buyer would be satisfied to make purchases in volume. Until the early part of the present year buyers maintained that prices either did not represent value, or at least that they were not based on the utmost productive efficiency, and though a buying movement is now in progress, we have still to see whether that attitude is completely and permanently changed. Certainly the inequalities which are called to public attention by occasional comparisons are significant in this connection. Recently a comparison of this kind showed that in a certain locality a bricklayer's pay was such that he received 90 cents for laying 23 bricks, that being the price received by a farmer for a bushel of wheat which had taken him six months to bring to maturity and to market.

Bond Prices and Money Rates

THE movements of security prices and the movements of money rates alike will be watched with especial interest from now on, not only because of their significance as a range of credit conditions, but because business, politics, economics and all the concurrent elements and influences which enter into them and arise from them will find a direct reflection in those movements of prices and rates.

The substantial advances which were recorded in the investment market during the greater part of the past two years were closely linked with the easing of money rates, both short and long term investment issues advancing in conformity with the downward swing of money rates. By studying the recent level of bond values, and comparing the year's high prices with the prices that were quoted in 1920, one is bound to comprehend the immense change that occurred in business and finance over the course of the past two years. In 1920 nobody felt complete assurance with respect to business or finance, or, for that matter, for the whole economic structure generally. The havoc occasioned by the war then began really to manifest itself. Europe was suffering a business and political revulsion; in this country we were in the midst of a reaction, and the strain was so great that the entire field of investments was cast under a heavy shadow. The credit strain was reflected in a struggle by the whole community to raise funds how and where it could, and by a consequent rapid upbidding of money rates. In the emergency, companies and individuals that in the war time had subscribed hundreds of millions to the war loans and that later, in the enthusiasm of the after-war inflation, had become over-extended in commercial and speculative commitments, were compelled to turn their most readily salable assets into cash, and liquidation of an extensive kind was indulged in, carrying security values downward.

Influence of Future Conditions

CURRENT prices, in comparison with those of that period, reflect the force of a combination of a low level of money rates, an improved general banking and business situation, and a comparatively satisfactory position in government finances. This is encouraging, though it does not necessarily confirm any conclusion that every force which contributed to the late discount of bonds is now fully and permanently altered.

Like in international finance, views are widely divergent regarding the outlook in domestic finance; ranging all the way from the extreme of bullishness to the limit of caution. All of these views have their bearing on security values, notwithstanding that none of them is based on any assured certainty. Whether bond values advance further or decline again rests in its determination with the trend of money rates, with the capital and credit demands of general business, with the thrift of investors, and with the wisdom of Congress in determining the Government's future financial policies. At current levels, certain of the government issues show a decline of 3 points or more from their highest levels of 1922, the reaction being due to the more active use of credit in general business, which has withdrawn idle funds from the bond market, and to the expectations regarding Congressional action.

The possibility of a renewal of bonus agitation no doubt has a bearing on the future course of bond prices, while of immediate importance is the prospect that the government will be a heavy borrower in the investment market during the coming months. In addition to whatever may have to be provided to meet the deficit in current government operations, it is expected that before June 30th next the Treasury will find it necessary to provide roundly $3,000,000,000 by means of tax revenues and sales of securities, in order to refund maturing certificates of indebtedness, victory notes and war savings certificates. Whatever form the revenue and refunding plans take, whether of notes, bonds or certificates of indebtedness, the financing will have to be accomplished; hence the movement of money rates, bond values, Treasury revenues and expenditures, Congressional appropriations and bonus legislation will all have their part in determining the degree of success that attends the efforts of the Treasury Department to conduct its financing to a final issue. The task will be far from light, and it will serve a good purpose were Congress, by refraining from hasty legislation, not to add to the strain.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, January, 1923.

WITH the beginning of the new year, every one who has a stake in the affairs of business and finance is engaged in a study of the trend of events, to determine, as far as he can, what the future holds. If it be true that the "best prophet of the future is the past," the outlook for the United States in 1923 should be one of progress, for notwithstanding the contradictory trend of events last year in many parts of the world, the record of this country, as regards both business and finance, stands in sharp contrast with that of other countries, and has encouraged the picturing of a bright outlook on the part of those who have the temerity now to make public predictions.

Because this country is resourceful and has a vast opportunity within itself for development and expansion; because it has escaped the trade paralysis, unemployment, currency inflation, budget deficits and social disquiet which blight other countries; because it has successfully passed through a period of adjustment from war-time to peace-time industry; because it has emerged from a period of severe deflation—because, in short, it is sound in its foundations, and shows tangible evidences of real and substantial economic strength, optimistic prophecy is far more general regarding the United States than any other country which occupies a large place on the map of the world.

Prophecy, however, is one thing, fulfilment is another. James Russell Lowell wrote many years ago: "My gran'ther's rule was safer'n 'tis to crow: Don't never prophesy—onless ye know!" It is not crowing to say that by contrast with other countries, the United States is in an amazingly strong position. Yet a safe prophecy for 1923 would require of one to know the future of many conditions which have a bearing on prosperity—conditions which touch the country financially, industrially, agriculturally, commercially, and which are hidden from us now. Moreover, there is to be taken account of the variable public state of mind. We are better off at the beginning of 1923, in an economic sense, than we were a year ago; there is no involuntary unemployment, wages are high, and credit is readily obtainable. Still, none of these things can be taken as a complete guarantee with respect to the future if, in popular fancy, the course of the country has not been satisfactory. A sentiment of popular unrest is noted; it found expression in the November elections, the results of which politicians described as a "protest and condemnation," and it has resulted in bringing into the prospect a struggle between the so-called conservative and radical forces in the great political parties, with all the disturbing influences which such a struggle implies, at a time when sane leadership is urgently needed.

Making the Country's Prosperity Uniform

THEN, too, there is to be considered the fact that our national prosperity is not altogether foursquare; the farmer has not shared in it to the fullest extent, because he has been at the mercy of low prices, inadequate transportation and impoverished outside markets. The situation is not altogether as bad as it has been painted, for the revival of prices in the latter part of 1922 added greatly to the farmer's purchasing power, and, as Secretary of Agriculture Wallace pointed out in an address at Chicago on December 19th, although agricultural prices have been lower relatively than the prices of other things, the farmers of the nation will receive between $1,500,000,000 and $2,000,000,000 more total money for their 1922 crops than they received for their 1921 output.

This augurs well for the future. At the same time, there is the unmistakable fact that, with the European markets unable to buy freely, a large part of the outlet for America's food products is shut off, and we are compelled to wonder how far prosperity in the United States can expand if a part of the farmer's outlet is blocked, and if the American manufacturer, with the farmer's capacity to buy reduced, finds a double check on his output by reason of curtailed buying from abroad and from the west. Considering all the factors involved in the development of the business situation in 1923, it is not to be expected that business men who have passed through the trying episodes of the last few years will be anxious to extend themselves simply on the contrast which their present prosperity bears with that of people in other countries. On the contrary, it is more reasonable to believe that they will base their plans on tested industrial and financial principles, and conduct their operations in the light of those economic legacies which came from the war and which still block universal prosperity.

What a World-Wide View Shows

IT is when we take a comprehensive view of the world that we are forced, as one observer has put it, to "find such consolation as an optimist may in the hope that the new year will be better."

Although the rate for sterling exchange has advanced in a notable way, England was recently described by Mr. Bonar Law, the Prime Minister, as a country whose economic and industrial future is dark unless the hope for improvement in trade materializes. Though the central position of British finance is strong, it is due to the stringent measures being enforced upon the tax payers, who are heavily burdened. Unemployment is such that the British treasury is paying out unemployment doles at a rate of £100,000,000 yearly. The situation in France is far from cheerful; the inability to meet government expenses out of taxation, or to make ends meet out of receipts from the German indemnity, has led to a deep resentment in that country at the manner in which fortune has turned its war gains to ashes. Italy has sought to overcome economic depression by an overturn of political parties. The same is true of Greece. In Germany, though trade activity is still seen, the financial structure of the country is progressively crumbling under an economic program which seizes as much of the country's production as can be seized for reparations, and a financial program which results in an insane form of inflation.

Effect of Foreign Conditions

AS may be judged, a peaceful and normal world is still far from being realized. With other countries suffering intensely from the effects of the war and the terms of peace, and with the general situation abroad such that Europe seems only faintly nearer a solution of its troubles than it was a year ago, there can be no gainsaying the restraint that is exercised upon our business conditions by foreign affairs. It is in the light of the growing understanding of this fact that we see the reason underlying the changed attitude of the American public toward the country's foreign relations. Only a short while ago the business man or banker was angrily opposed who suggested an active interest by the United States in the economic affairs of Europe, while proposals that this country take a definite part in the reconstruction of that continent's finances were objected to at every hand. Such proposals now are not only listened to without resentment, but they are being freely discussed on the part of the rank and file of the people, are being urged in Congress, and are occupying important space in the daily newspapers.

Close Relation of International Welfare

IF this means anything, it means that the majority of the American people are being brought to realize that the world is tied together in a way that makes its several parts interdependent, so much so that as one member of the body suffers, other members suffer. It is not only humanity that prompts our interest abroad. It is also our sense of good business. We want foreign markets open to our products. And so we are finding that we cannot longer afford to take a self-complacent attitude toward affairs beyond our own borders, for we see that such an attitude leads directly to an impairment of our prosperity.

It is still to be determined what this country's formal steps will be in the direction of assisting Europe's recovery. In formulating America's international policy, those responsible will be compelled carefully to consider, together with the economic aspects, the political and social aspects of the outside world. Foreign countries are in need of an increase in production, distribution, buying power, credit. The people of whole nations are in certain instances so impoverished that their standard of life is materially lowered. The greatest immediate assistance to them would come from a restoration of their credit relations.

But it is not the province of international finance alone to correct every fundamental weakness that exists abroad. International finance can help. But a prerequisite to a return to normal is a common political agreement on the problems which confound the different nations. Until views in several of the countries abroad approximate more closely to the realities, it would be foolhardy to believe that the economic crisis might be successfully dealt with through the aid of a single outside country like the United States.

The Crying Need of Assured Peace

HERE we have the advantage of a detached perspective which enables us to see certain aspects of the world's position, which other people do not see or have deliberately ignored. We are 3000 miles away from jealousies, hatreds and suspicions. We see, for example, that as economic disorders increase, political differences must disappear if an organized check is to be imposed against chaos. And we also see that if foreign statesmen will only stand side by side, the American people might recognize the benefits of international cooperation with sufficient clearness to be willing presently to associate themselves with the work of economic reconstruction.

There is nothing really new in stating this. Eight months ago, at the time of the Genoa Conference, Mr. Lloyd George announced the formula for prosperity abroad in these sentences:

"We have placed deliberately on the agenda of this conference the first question of establishing peace in Europe. Unless we can do that there is no use asking experts to discuss financial, trade, or credit schemes. Schemes may expedite and schemes may facilitate. But without peace every scheme must fail."

The Requirements of Europe

ALL of us recognize that what Europe really needs is a general settlement involving international good will and disarmament, a balancing of government budgets, a return to stable and honest money, a removal of trade barriers. These involve first of all a reestablishment of tolerance in international relations. Not that the people of one nation must be compelled to love those of another nation more. In the nature of the case, that is not a thing subject to compulsion. But by peace, tolerance and right leadership they can be made to hate each other less.

Then, coincidentally, there are involved a writing off of losses, a writing down of debts, a curtailment of army, navy and government expenses, an institution of effective methods of taxation, a reestablishment of international credit. All these can be brought about if tolerance is shown, and if right leadership is forthcoming.

In view of these necessities—which are truly necessities for lasting peace and progress—the United States must carefully feel its way. That this country will intervene in due time in the interest of restoring Europe is certain. But also it is certain that what it does will be contingent on sacrifices, the United States agreeing perhaps to make certain sacrifices in return for certain other sacrifices on the part of individual European countries.

Importance of the Reparations

FROM the point of view of establishing a basis for a renewal of intimate credit relations, the financial peg upon which all others hang is the adjustment of the German reparations. The situation respecting reparations has become so serious that—to quote a statement made at the close of December by Senator Borah of Idaho—"it threatens complete estrangement between leading nations which were together in the war; it has brought Europe to the very verge of chaos."

Opinions in the United States have crystalized to such a degree that it is almost uniformly accepted that the reparations problem must permanently be settled on economic facts rather than on diplomacy. Hence the vital consideration is the determination of a sum which will satisfy the just claims of the Allies, which will be within Germany's ability to pay, and which at the same time will permit the German people hopefully to carry forward their productive activities.

We see that before any other step is taken toward economic health in Europe, Germany will have to know the exact sum which is its penalty for its part in the war. So long as the sum is undeter-

Essential to world recovery, then, is the establishment of the exact sums which nations can and will undertake to pay. So far as Germany is concerned, the sum should be the last dollar it can pay and still take its proper place in doing the world's work. Acceptance of that sum, whatever it might be, by Germany and the rest of the world, would give a fixed goal to which all might work.

Germany's Ability to Pay Indemnity

TRUE, the sum itself is a matter of serious importance; neither France nor the Allies can afford to permit Germany to be wholly relieved, while they break down under the weight of the war legacies. Germany's finances are disrupted, and there is misery among great numbers of people who are at the mercy of the utter collapse of the mark. Misery among millions of people is not helpful to the liquidation of their debt, but Germany is still economically strong, and it is recognized that productive effort which during the past three years might have been applied to the indemnity has been directed to the upbuilding of Germany's own internal position. German labor has reestablished the country's railways. It has restored the merchant fleet to a respectable percentage of its pre-war tonnage. It has developed industry. It has deepened rivers and channels, and built new transportation routes, both land and water. It has exploited natural resources —to quote from one report—"to an extent not dreamed of before the war."

The development and extension of its industries has consumed a substantial part of Germany's surplus production, so that the country's industries have made forward strides since peace was ratified. But recognizing all of this—and a commission of experts charged with fixing new reparation terms would hardly overlook the necessity of tabulating the accretion of Germany's capital values—it does not alter the essential fact that until an exact sum which Germany must pay is determined, on a new basis, neither Germany nor France nor any other nation will have a fixed goal, politically or financially, toward which to work.

Possibility of a German Loan

THERE has been much talk of the possibility of a German loan in the United States, which would help set European finances right. Were certain prime requisites established facts, the financial assistance of which Germany stands sorely in need to remedy its currency and financial condition, and make payments to France, would in all probability be forthcoming. The requisites are already well understood. If American help is to be extended to Germany—or, for that matter, to any other European country on a large scale—there must be a conciliation of hostile purposes, a restored peace of mind, a return of the people to work, a clear-cut accounting of national assets and liabilities. Every requisite is interwoven and interdependent; each has a bearing on the essential factors of production and trade, without which all considerations of economic revival are futile. But an understanding of the relations of all, one to another, must be arrived at if any way out of the present turmoil, paved on a financial foundation that will justify American credit assistance, is to be found.

Hopeful Business Prospect of this Country

IT is impossible to study the current business reports without a feeling of gratification that the United States is today busily engaged in productive pursuits, at a time when so many other countries are making slow progress in the direction of true prosperity. In this country just now there is no involuntary unemployment, wages are high, business is active, credit is readily obtainable. Having begun the year well, general business—barring unforeseen developments—bids fair to be satisfactory from the standpoint of production, distribution and profits. The present position of our productive organism generally, of purchasing power throughout the country, of the price structure and the banking and credit structure are such that, as one review of business conditions has expressed it, "only an economic hurricane of the most sudden and vehement sort would be likely to wreck the business movement that is under way."

European developments are not under American control; at the same time we cannot safely forecast our future without reckoning fully on foreign possibilities. There are also matters apart from Europe which command attention; one of these which is not dramatic but of high importance is the necessity of keeping our domestic production, distribution, prices and use of credit in their proper relations. Business excesses are not at the moment in view, but circumstances warrant the observation that such excesses, while they would undoubtedly stimulate our prosperity in months to come, would inevitably, because of the unbalanced world of affairs, invite trouble. Excessive use of credit, excessive bidding up of prices, excessive advances of wages and excessive stimulation of production, brought about at a time when markets are not in a position, for a prolonged period, to absorb all the new output at rising prices, would invite another disruption of the business organism like that which was experienced in 1920.

Certain Weaknesses in the Situation

THIS country is enjoying a prosperous condition, and it is by very reason of this prosperity that some of our notable problems are created. Because we are so rich in resources and opportunity, our standard of living has risen far beyond that of any other people, and as a people we have become notoriously wasteful and luxury loving. We are known the world over as "liberal spenders." Up to a certain point this is not to be criticised. But in too many instances we have gone beyond the point in question, and we see increasingly a desire to raise the standard of living further and further, without establishing the underlying structure on a firm and sound foundation.

Wealth that raises living standards comes from production, and wealth cannot increase when as individuals we seek to gain all we can, and spend all we can, with a minimum expenditure of productive effort. We live in an age of machinery, automobiles, and devices which take the place of human muscles, but human effort and direction are still required to perform the nation's daily tasks, and it is an unpleasant sign that, though human ingenuity is continually exerted for increased pay, it is exerted just as continually for a reduction in the hours of work. Ten-hour days have given way to days of eight, seven and six hours. In many instances production of individual workers has increased in spite of the lessened hours, due to inventions and skillful management, but in the other cases, as well as these, pay has increased, while strike after strike has occurred all down the line until it has seemed that labor generally was interested only in the size of its pay envelope and the extent of its leisure.

Dependence of Prosperity on Output

LABOR that is not economically employed is an economic waste; multiplied a sufficient number of times it serves eventually, by forcing wages and prices up, to break prosperity down. The employer of labor owes it to his workman to pay him what he is worth, according to the value of his productivity. That is a simple matter of right and justice. At the same time the workman owes it to his employer to give an honest day's work for what he receives. That, too, is a matter of simple right and justice. Pride of craftsmanship at one time constituted a large part of a man's existence. A man was more than a shoemaker; he strove to be a *good* shoemaker. He was more than a tailor; he strove to be a *good* tailor. His work was his pride. But too often the man today has lost the sense of pride in his work.

Since the war the rank and file of people have come to look too much to something beside their own efforts to determine their affairs for them. Congress has helped to do this, for laws have been proposed to remedy almost every ill to which society is subject. If only it could be impressed upon the man of ordinary affairs that *no amount of wages can produce prosperity if prices and wages chase one another upward in a vicious spiral; that no amount of credit can take the place of the output of labor; that no amount of legislation can produce good crops, increase manufactured output, or insure permanent prosperity.*

Fallacy of So Many "Remedies"

CHEAP credit for one thing, and government ownership for another, are fetishes which politicians have constantly held up before the public as a cure-all for their industrial ailments. The fallacy of both has been demonstrated in recent experience. Cheap credit, leading to inflation, was paid for by painful deflation a little more than two years ago. Government operation of the railroads during the war condemned itself.

Class legislations can never be permanently successful. What takes from one and gives to another is unjust and undemocratic, and a policy based upon injustice sows the seeds of its own destruction. It is to keep wrong enactments out of our law books that business men should have a more prominent place in politics. There has been a deterioration in the mental and moral character of legislators in all legislative bodies, partly because of the continued indifference of good citizens to attend the primaries and the polls, partly because of the refusal of the capable business man to serve in public office, and partly because of the credulity of the common people who mistake sophistries of the demagogue for gospel truths, and who reject the conservative well-balanced promises of the thoughtful and trained executives.

Politicians may be necessary; statesmen are indispensable. It is the true statesman who recognizes that "*what is morally right cannot be politically wrong*". In the long run, it should not be difficult to judge from results who our politicians are and who are our statesmen. But will the public, even when the distinction is plain, act in the proper light? In view of recent events, it is hard to say. There is throughout the country a growth of political expediency that somehow or other, because of its superficial attractiveness, commands popular support. It isn't right, but it isn't corrected.

Offsetting Radical Views and Propaganda

THE term "bolshevism" has become a by-word in our daily discussions and we are apt to diminish its significance because of the crumbling of Russia's bolshevist experiments. After all, though, there is a species of bolshevist in this country that is known by various titles, that bears careful watching. Groups of "advanced thinkers", of liberal thought, who throw aside convention and call themselves independents, progressives, socialists; their purpose can only be to overturn the existing order. One can hardly enter a club or a parlor without being treated to one or another form of radical speech, be it on politics, finance, religion, art, or the various affairs of society. Too much of it is the product of loose thinking. We have no patience with the hair-brained theorist who is seeking to make Utopia out of America at one fell-swoop. At the same time, even though he may be no more than the product of an existing phase, we cannot afford to mistake the effect of his propaganda. Eternal vigilance and constant effort must be exercised in order that American people may not respond to the poison virus that is being constantly injected into their veins through the efforts of the agitator.

Our economic growth as a nation will be determined in no small measure by the manner in which we guide our destiny in the present era. We hear a great deal about "phases." Perhaps what we are going through is just a phase. Magazine writers have described the past few years as a "jazz phase" of our existence, and have traced a connection between the various disturbing elements—radicalism, strike fever, free verse, futuristic painting, crime waves, obstreperous youth, jazz music, jazz dancing, jazz thinking. If it is all a phase, it is a legitimate hope that we may rapidly emerge from it. Especially from a business viewpoint the hope is warranted that we are coming into a period when common sense and simple honesty, and a thorough application of constructive ability, will determine our destiny.

This nation has plenty of room to grow better. It has not reached its greatest pinnacle. There is still vast opportunity for progress, not only in the country as an economic unit, but in the nation as a group of individual human beings. Criticism will bring change, but it must be helpful criticism, and not radical agitation, if the change is to be for better things. A devotion to the public interest is required; less selfishness and a greater development of that common virtue of helpfulness. The men and women of this country who have been taught American traditions and who honestly believe in American institutions are in the majority, and can be depended upon to preserve their country. But only will they do this if they are kept in the majority, and that depends on the example and the help of every good citizen to keep constantly before the politician for revenue and the radical agitator the truth of the old copy-book maxim, that *Only Right is Might*.

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MAR 1923

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, March, 1923.

THERE is no trade boom under way in the United States, but practically every trade index is so favorable that business sentiment is uniformly confident with respect to the prosperity that is to be enjoyed during the next few months. Conditions in nearly every industry are healthy, and the reflection of this is found in the rapid movement of commodities, both raw materials and finished goods, into consumption. Basic commodities like cotton, steel, copper, and lumber have for some time shown a steadily rising price tendency without checking demand; as for the movement of finished materials, that has been limited in most cases only by the supply of labor and facilities for transportation.

Railroad traffic in every part of the country is at a record, and freight congestion is reported at the various railway centers. Shortage of both skilled and unskilled labor has resulted in competition for the available supply, one industry or section of the country seeking to gain adequate working forces by bidding them away from another industry or section.

As an example of this: plasterers in one locality of the country, receiving $14 and $16 a day, learning of offers of $20 elsewhere, have forced employers to raise their wages to $22 to keep them at home. As another example: so urgent has been the demand for labor in Detroit, the center of the country's automobile industry, and so attractive are the wages offered, that a flow has been directed thither which has increased the number of workers employed in that city to more than 300,000. Little more than twenty years ago the entire population of Detroit—men, women, children, workers and idlers—was less than 300,000. Now its population is the fourth largest in the country. A chronicle of the activity of various industries would require a great deal of space, inasmuch as that activity covers so wide an extent. For the most part, it finds its most notable expression in the building boom that is under way—for here, indeed, the word "boom" best describes what is taking place. The rapid rate of building construction has been the backbone of business revival in many sections, record-breaking operations having absorbed thousands upon thousands of workers, and tens of million dollars of material. At this time last year it was thought that building construction was going forward at an extraordinary pace, yet lumber shipments lately have been 50 percent above a year ago and cement shipments have increased 100 percent, while the volume of shipments and the prices alike of steel, iron, brick, copper and lead are considerably in advance of a year ago.

Holding Enthusiasm In Check

IT is always a fashion, at a time like this, to issue warnings against recklessness and over-expansion, and such warnings are forthcoming now. They serve their purpose in holding enthusiasm in check, for among a certain percentage of us the lessons of experience are soon forgotten, and it requires words of caution repeatedly sounded in our ears to keep us in check. Still, to those who have been given an opportunity lately to discuss business affairs with men from various sections of the country, it has been manifested that there is a healthy state of mind, with little recklessness in business, while forward commitments, all things considered, are on a conservative basis. Supplies of goods are more or less depleted, the buying power of the country is noticeably greater than it was a year ago, and prices and wages have moved upward as the demand for goods and services increased. These factors have made the business prospect of the immediate future unmistakably excellent. Yet it is the exceptional individual who has come to regard the longer prospect without certain reservations, and who is not conducting his affairs in accordance with those reservations.

The Position Of Labor

ONE gratifying feature of the situation, and one that has contributed to bring production back to normal, increase profits, and sustain the country's buying power, has been an absence of serious and widespread labor difficulties like those with which, in the past few years, we became so familiar. It would lend to general business confidence and remove one large reservation with respect to the future were there an assurance that the condition of the past five or six months, so far as labor is concerned, would continue. Experience, however, does not offer that assurance. Were we in a period of comparative stability we might hope for industrial peace for some time to come, but it is to be feared that if for any length of time prices and living costs continue to rise, and if there is a continuing shortage of labor, the habit of wage controversies will be resumed. Practically speaking, unemployment, except among the chronically idle, has disappeared, and, as already said, there is competitive bidding among employers for the muscles and skill of workmen. As a consequence of this, wages have automatically moved upward; some statistical charts indicate that the average wage advance of the past six months has been more rapid than that of retail prices. If as time goes on the labor shortage becomes more pronounced—and with immigration definitely restricted this appears to be a certainty—misunderstandings are bound to ensue, especially in those trades where labor is strongly organized.

Looking Ahead In Foreign Affairs

STILL another factor contributing to reservations regarding the future is the state of foreign politics. The tangled confusion existing in the realm of international finance has been relieved of one troublesome feature by the final funding of the British debt to our government, and there is a strong beam of hope in the improvement that has occurred in the rate of sterling exchange. But there are many other features having to do with international affairs which continue to jangle on tense nerves, and which confuse the outlook by reason of the various conflicting outcries of those who think only in terms of their own advantage, and who would have disputed matters settled in their own way. The weariness and disillusionment of the different European states, and the combination of jealousy, fear and animosity that are everywhere apparent, weigh heavily in the process and pressure of human affairs, and it has become utterly impossible to speak with assurance on the future because of the failure, even among Europe's leaders, to determine the direction in which that continent as a whole is headed.

Our Part In Europe's Future

THE administration at Washington has been roundly criticised because of its lack of a "foreign policy," and because it has not taken a hand in the settlement of the outstanding troubles of Europe. At the moment it would require a superman to outline any foreign policy that would be successful. Sooner or later there must indeed come a conference at which the whole matter of reparations, international credits, exchange, trade and European budget-balancing will be discussed. But the time will have to be properly chosen, if good results are to be obtained.

Moreover, if the United States is to take part, the extent of our contribution to the general plan of rehabilitation will have to be determined with the utmost care. It is not possible at the moment even to approximate that contribution. While beneath the surface efforts are no doubt being made to bring about settlements abroad—in particular a settlement of the deadlock arising from the French occupation of the Ruhr Valley—every surface indication points to a continuance for some time of international differences generally, and of the economic struggle which Germany is imposing against the military strength of France in particular. The intimation is strongly given that outside interference is not desired; hence the time for political mediation and for a general economic conference is not now, nor can it be named now. The British Prime Minister, in an address before Parliament on February 19th, said: "In all the trouble that lies in front I do not see any clear light. I do not see when the moment will come for intervention, but I am sure that moment has not come yet." For the present, then, the attitude here will be one of waiting, with conditions abroad contributing an important reservation to offset the enthusiasm over any prospects of a prolonged period of trade prosperity.

Business Expansion And Credit Demands

FROM a strictly financial point of view, what is impressive is that the upward trend of business has been accompanied by no notable inflation of credit. Expansion, indeed, there has been, and this has led to a great deal of talk about inflation. Yet commercial bank loans throughout the country do not exceed a year ago by any extraordinary amount, while commercial bills rediscounted at the Reserve Banks are only half as large as they were a year ago, and the total of all bills held by the Reserve Banks—discounted, secured by government obligations, and bought in the open market—are actually below what they were when 1923 began.

For the present, with so much gold available in the United States to serve as a basis of credit, with the commercial banks in sound condition, with the machinery of the Federal Reserve System geared to care for any demand that might arise, and with so many evidences of strength in the underlying business situation, it would be exceedingly strange if some increase in the demands on the country's credit resources did not occur. Of course, in the long run, accumulations of surplus bank funds do not of themselves, simply by making it cheap to borrow, stimulate industry if other influences are all opposed. But in the present instance other influences are not opposed; there is a large demand for goods and a ready market for what is turned out. Over the past twelve months the output of manufactured products in particular has largely increased, yet the buying demand has moved so far forward that rising prices of basic commodities have established the average of living costs 12 to 15 percent above the level of a year ago.

Restraint Exercised By Borrowers

THE testimony from nearly every section of the country, as already pointed out, is that business men at the moment are operating with caution, and are not committing themselves far in advance. Moreover, the heavy shipments of goods now under way suggest that no great quantity is being speculatively held; both raw materials and finished products are moving into consumption. What is reassuring, then, is the caution that is exercised both in the demand for, and the extension of, credit. Borrowers and lenders alike are exercising restraint. From this it will be gathered that the financial health of the United States is amply supported by the strength of its credit structure, and the manner in which that strength is being used.

Rise In Federal Reserve Rate

THIS is not to suggest that it would now be desirable to develop, either among the banks or business interests of the country, any enthusiastic optimism that would displace the present cautious hopefulness and build up a spirit of heedless speculation, based on borrowed money. The advance from 4 to 4½ percent. which was made on February 21 in the rediscount rate of the Federal Reserve Bank of New York, the first upward change since June, 1920, is significant of the banking attitude at this time; it is a current opinion that the general welfare would be served best by the restraints which a firm money market would exercise in the matter of new commitments. There is always a temptation, when credit is available at low rates, to utilize it.

No drastic steps are likely to be taken in the near future, but as has been said on occasions in the past, the memory of borrowers in the face of new opportunities is proverbially short, and no matter what may be the lessons of experience, cheap money is an encouragment to extend oneself in disregard of one's real needs. Hence the action on the Federal Reserve Bank's rate has been described as a "gesture of warning," not calculated to do anything to hinder business activity, but to show that strong measures would be taken were a corrective later on required.

Money Market Movements In Future

A STUDY of the factors that are to determine the future of money rates in the United States is particularly interesting at this time, in view of the unprecedented conditions which so generally obtain. For some time to come, unless the outlook is altered by wholly unforeseen occurrences, the activity of general trade and the rising tendency of commodity prices will lead to increasing demands on credit resources. Still, business will not for some time be held in check by reason of any credit stringency.

The immediate outlook is reasonably clear. But what of the outlook for the longer future? The answer depends on a number of things. Naturally, a great deal depends on the volume of business and the course of prices. A great deal depends on the earnings and savings of the people and the disposal of their investment funds. A great deal depends on the success of the movement to enact "soft money" legislation. A great deal depends on developments abroad. And a great deal depends on the gold stored up as a reserve to support our banking system.

Savings And The Gold Supply

IN any study which scans the longer future of interest rates, consideration must be given to the investment tendencies of the American people, and to the phenomenal gold supply of the country. With respect to the matter of the gold supply: our monetary stock of the metal, as reported by the Treasury Department, is more than $3,950,000,000, this amount representing an increase over a year ago of $270,000,000, and over the opening of 1921 of $1,150,000,000. Our gold represents nearly one-half the whole world's available supply of the metal, and in our banking system possesses an enormous power.

It has become a trite thing to say that while we have too much gold, other nations have not enough. But with the mechanism of international finance wholly dislocated, and with the exchanges of those countries most in need of gold swung farthest away from the point at which they normally might command gold, the problem is not in the way of being solved. Lately a few million dollars of gold were shipped to India, but that movement had no large significance, for there is not a single sign of any present or impending major turn of the gold tide away from our ports, and the world's most astute minds have not devised a way of either naturally or artificially turning that tide.

Where New Capital Will Go

AS for the investment tendencies of the American people, there is a very direct relation of the money market, so far as the future trend of rates is concerned, to the demand and supply of capital funds. Gold and banking credit alone do not determine the rate of interest; a fundamental consideration is the demand for, and the supply of, capital. The volume of money and credit and the rate of interest are controlled in the long run by those other economic phenomena which underlie them both, for after all, bank credit is simply the instrument or medium which the borrower uses in place of the real capital which he desires.

The answer to the whole question depends on circumstances not yet unfolded. But it is not visionary to look for development work at home, and an interest in foreign financing, both in the near and distant future, that will absorb investment funds as they are forthcoming, and that will find its reflection also in the market for banking credit, not alone through the relation that the rate of interest on capital has to the rate on commercial funds, but through the tremendously widened opportunities that are opened to the commercial enterprise of the American people.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

NEW YORK, April, 1923.

EVERY review of American business sounds the same note; there is a pronounced degree of activity throughout the country, industrial production in every section is very close to maximum, buying power is large, labor is employed at full-time capacity, prices and wages are advancing. Freight traffic on the railroads surpasses all previous peak records for this time of the year, a single week's loading in March approaching more nearly to a total of a million cars than did any previous week in railroad history. Automobile production is notably heavy, the number of passenger cars turned out by the country's largest single producer in March having topped every previous record. The pace of the textile, leather, sugar, copper and petroleum industries is typical of the rest; as for the steel industry, that is operating as a whole at more than 90 per cent of capacity, obsolete units having been put into service which for several years were idle. Yet so insistent is the demand for steel that mills are falling behind in deliveries. The current volume of building construction is greatly beyond the corresponding period a year ago and Herbert Hoover, Secretary of Commerce, has called for a halt in the government's building program, in order that competition from that source may not create a greater shortage of labor and materials than already exists.

Business Revival to Continue

BUSINESS revival is more than holding its own; it is going forward. With the possible exception of agriculture, the indication of every trade and industry is for continuing activity and further expansion, not only because of a buying demand within the country, but because foreign markets go on buying American products on a large scale, supplying an outlet for goods and providing a powerful influence toward the upbuilding of confidence. In every part of the country there is now a large volume of advance buying, and under the forward impetus thus given, productive resources during the next few months—barring unforeseen obstacles—should reach an output limited only by the available supplies of labor, plant capacity, transportation facilities and credit. Emerging from a severe winter, the country has entered a season when outdoor work is subject to no weather restrictions, hence, with production keyed to a high pitch, with orders piling up, and with pressure for early delivery becoming more insistent, the trend of expansion is toward a scale similar to that of the boom of 1919-20.

The question of how long the present period of activity will continue, and how far it will go, is one to which everyone who has a stake in the future is seeking an answer. The public mind is coming rapidly into a state of an easy acceptance of such words as "prosperity" and "boom," with all that those words connote. It is just here, in the public state of mind, where lies the destiny of the present period of activity. There are many reasons for believing that it will be healthful and enduring, but the determination of the matter, after all, rests upon the success that is had in keeping the public mind from developing in such a way that rising prices, rising wages, and unrestrained use of credit carry prosperity beyond reasonable bounds or out of its present course.

Ordinarily it is accepted as a self-evident fact that business, especially the business of producing manufactured goods, cannot expand beyond the limitations imposed by labor, plant and transportation facilities. Most people, if asked, would say today that they fully appreciate this fact, nevertheless there are signs that the public mind, just as was the case in 1919 and 1920, is coming around to a view that rising prices and wages, and an increasing use of credit, can carry prosperity to new and unparalleled heights. Were such a state of mind to become fully developed, sound business methods would soon be left behind, and an unhealthy condition would ensue. Buyers seeking goods would feel that to get them, all that was necessary was to bid for them and offer premiums, and this would lead other buyers to outbid the first buyers and offer still higher premiums. In the same manner employers seeking labor would feel that to satisfy their needs, all that was necessary was to offer higher wages, thus leading other employers to outbid them and offer still higher wages. A process like this, no matter how often repeated, would not increase production were production already keyed to its greatest pitch. What it would do would simply be to raise prices and wages unreasonably, create a widespread speculation in goods, place an undue strain on bank credit, and throw the whole industrial mechanism out of gear. Carried far enough, it would lead to inevitable collapse.

Keeping the Situation in Hand

WHAT is essential to a maintenance of the present very generous measure of prosperity, then, is that the public mind be kept sane, and that it be made to appreciate that labor shortage, plant limitation, difficult transportation, and credit conditions are the factors which really control our business expansion. There is still room for healthy expansion, and in the months which lie immediately ahead trade activity may indeed reach a scale similar to that of the boom of 1919-20. Still, this much is sure: any extravagant advance in prices and wages, and any undue inflation of banking credit, would not carry that activity beyond the point fixed by the country's actual physical limitations. They might seem to do so, just as they seemed to do in the summer and fall of 1920, at the apex of that year's boom. Then the curve of prices and wages continued moving upward long after production reached its peak; the penalty was a general industrial breakdown. If prices and wages continue their present sharp upward curve, and if banking resources are called into extraordinary use at the same time that labor shortage becomes more pronounced and transportation conditions become more difficult; if these things occur, it may definitely be concluded in a little while that a new era of inflation has been entered upon, and due warning of the outcome can then be taken.

Domestic and Foreign Influences

AT the moment it might appear that trouble is being borrowed by those who preach caution; "joy-killing" at a time when industry is solidly on its feet might even be regarded as a sign of a prophet's sluggish liver or failing imagination. Trade is active, demand for goods is large, and the door of American opportunity is wide open; it is further true that despite all post-war predictions, European markets are taking a considerable share of American output and would take more were the pressure of the political situation upon economic recovery less positive.

There is much in the outlook, then, that is very cheerful; still, a word of caution at the moment should not be amiss, especially if it averts the danger of a runaway market such as the building trade appears to be entering, with its advances, in certain articles used for construction, of as much as 150 and 250 per cent over the pre-war level, and with wages that in individual cases have reached $30 a day for bricklayers, carpenters and plasterers.

Strength of Banking Resources

UP to now, it is important to note, business expansion has not made inroads upon the country's banking resources in any manner to warrant immediate alarm. This has been a year of steadily increasing trade volume, yet the banks are in a strong position, it being especially significant that those banks which are members of the Federal Reserve System are utilizing the rediscount facilities there only a little more than they used them a year ago, while, in comparison with the 1920 peak, the bills rediscounted by member banks are in much smaller amount.

The banking position of the country is sound for three reasons: (1) the large supply of manufactured and other goods on which advances were made some time ago—advances which became "frozen loans"—has been sold at rising prices, the loans thus paid off having measurably offset the new borrowing; (2) the banks have insisted more than before that loans be of a self-liquidating character, making it necessary for borrowers to forego heavy forward purchases and to limit their financing to immediate requirements; (3) many business organizations, having put themselves in strong conditions, have financed part of their expansion out of their own resources.

Position of Federal Reserve System

AS said before, the determination of the future rests with the state of mind of the people, for if the curve of prices and wages moves steadily upward and is accompanied by heavy forward buying of commodities, the inevitable consequence will be a scrambling for goods, a widespread speculation, and a rapid acceleration of the upward price movement, all together operating to bring about a swift increase in the demand for credit. A strained credit structure usually marks the end of a period of undue activity, and though the banks are today in a strong position, and though they still have some capacity for expansion, their resources are nevertheless coming to a point where they will be practically all employed, and presently we may see an increased resort to the Federal Reserve Banks. If this does occur, and if in the view of the Federal Reserve Board at Washington the signs of a strained credit structure are pronounced, it is inevitable that preventive measures will be taken, and that advances in the rediscount rate will be made, being repeated as often as is necessary to prevent the country from being swept into another period of credit inflation.

It is because of the general assurance of this that increasing interest is being shown in the actions of the Federal Reserve Board, where control over rediscount policies is exercised. At the moment, of course, it can hardly be said that absolute control of the situation rests in the hands of that Board, or that of the banks generally. The absence thus far of a rapidly enlarging portfolio of rediscounts is accepted as proof that Federal Reserve credits are not being utilized for the purpose of relending at a higher figure in the open money market, so that the question presents itself whether the relatively small outstanding total of rediscounts would give opportunity to make a higher rediscount rate effective in controlling the open market.

With no great demand for Federal Reserve credits, and with borrowing among the banks generally represented by self-liquidating commercial loans, little more than a psychological effect could be produced just now by higher discount rates. Still, it is conceivable that the Federal Reserve Board might now determine to place the System in the position which the law intended originally to place it in; namely, where it would be a "reserve system" in a true sense, with rediscounts by member banks carrying a certain penalty. By adopting a policy of lifting the level of rediscount rates above the general market level, a penalty on rediscounting would be imposed by the difference between the open market rate for loans and the rediscount rate. Such a penalty would make rediscounting less attractive than it has been in the past, and would serve as an effectual check on tendencies toward inflation.

The Future of Interest Rates

IN view of the current industrial activity, increasing attention is being given to the longer outlook of interest rates. So far as future trends are concerned, there is a direct relation between the supply and demand of bank credit and the supply and demand of capital funds, for after all bank credit is simply the medium which borrowers use in place of the real capital which they desire, and the rates of both are controlled, although in different ways, by the economic phenomena which underlie them both. The longer future of interest rates, on bank credit and investment capital alike, depends not alone upon the supply of gold contained within the country, or upon the workings of the Federal Reserve System or the commercial banks, but also upon the savings of the people, and on the uses to which those savings are put.

Savings in the United States last year, which sought investment, were roundly $8,000,000,000. Will the current year repeat the experience of 1922, in which, even though so great a volume of new capital was created, demand outran the supply? Or will the situation be reversed, the volume of capital seeking investment overtopping the opportunities which are offered for investment? If the demand for funds is great, with security issues outrunning the creation of new capital, interest rates will advance. On the other hand, if there is little inducement for the employment of new capital, the supply before long may run beyond the demand, resulting in a decline in the rates of interest both on investment securities and commercial loans.

Demand for Capital and Credit

THUS far in 1923 security issues have been larger than those of the corresponding period in any past year; this in itself is a significant indication of the demand that exists for capital. Before the recent volume of new industrial securities appeared on the markets, it was believed in many quarters that the war-time expansion had created a situation in which, for a long time to come, there would be no great need for capital to expand our manufacturing plants.

Yet in the face of this belief, well-reasoned as it was, we have for months seen a record amount of industrial financing. Moreover, we have seen the railroads and many of the public utilities in the market for new funds, even though public regulation, together with high wages, were thought to have operated to make these industries an unattractive investment. Agricultural development, it is true, has had a setback, and agricultural communities have been more concerned with liquidating old debts than in undertaking new developments. But public improvements by states and municipalities, financed by security issues, have been of extraordinary magnitude, and hundreds of millions of dollars have been invested here. Then, too, there is the item of new construction, both for business purposes and homes, which has absorbed literally billions of dollars of savings in the past few years, and which, in spite of the continuance of high prices, gives promise of absorbing more.

Looking to the Longer Future

THE development of our domestic resources has bid for, and is bidding for, the savings of the American people, while abroad there is a demand which should grow more insistent as time goes on. Taken all in all, no one can say positively that there will be so active a demand for capital and credit during the next few years that the demand will outrun the supply. Yet in looking about us we cannot fail to appreciate at least the likelihood that the demand will be great, so much so that instead of entering upon an era of declining interest rates, which had been predicted by those who thought a poverty-stricken world would not be able to offer large investment opportunities for years to come, an era of advancing rates may be seen. The portion of the earth which contains the United States needs an endless amount of work to be done upon it, and an endless amount of capital and credit to finance that work. Ours is no longer a pioneer country, yet nowhere may capital and human effort be more profitably employed. As one recent writer expressed it: "There are deserts to be watered, swamps to be drained, mountains to be moved, rivers to be harnessed, railroads to be built. There is the gigantic task of converting coal into power. There is the outline of power projects for which it will be difficult to find capital in another whole generation." And if the air is presently cleared in Europe of the political poisons which now prevent the "coming back" of that continent economically, an additional portion of the earth will soon begin to bid for the financial strength represented in the savings of the American people, adding just that much influence on the side of higher interest rates.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, May, 1923.

MUCH as in the earlier months of the present year, business throughout the United States is being conducted at a rapid pace, with industrial production close to maximum and with wages, profits and prices advancing. Activity is confined to no single trade; record output is reported in various directions, and in view of the demand that is forthcoming and the buying power that exists, there is every reason for believing that the activity will continue for a considerable time to come.

Rising price tendencies are in evidence, with shortages appearing here and there and with an increasing tendency on the part of buyers to order in advance and pay premiums for prompt delivery. One or two reviews have referred to a "mad scramble" for material, but this phrase is hardly warranted. However, instead of manufacturers seeking orders, a hesitancy has developed on their part about accepting business too far in advance, lest further expansion of purchasing power should stimulate a further wave of buying and carry prices to still higher levels.

Adjusting Our Minds to Prosperity

COMPARED with the latter part of 1922, the volume of business is so large that in many cases people have not been able to adjust themselves to the upswing and have wondered at its real meaning. The change has been so complete and has swept industry into such activity that conservative minds have sought for extraordinary reasons, and have in many cases come to the conclusion that inflation is responsible for the forward impetus under way. Although the commercial banks of the country have extended credits in large volume, the increase over last year is not sufficiently pronounced to support the inflation theory; moreover, the position of the Federal Reserve system is one that in comparison with 1922 and with the inflation period of 1919, is one which fails to support any belief that use of the banking resources of the country is alone responsible for what is under way.

As a matter of fact, the requirements of the American people, plus the demands of our export trade, have been sufficient to warrant the trade developments under way. Dating from the war period there has been a shortage of many essentials in this country, and in making up this shortage the buying power of the American people has demonstrated itself in the increasing demands upon the country's industries. Of course, in a situation like the present, the outlook for a continuance of prosperity rests altogether in the degree in which the people as a whole keep their heads. While many of the country's leaders are still a bit bewildered by the completeness of the change from the recent business stagnation to the present rapid turnover, there are others who, looking for a prolonged period of activity with rising prices, are beginning, as already indicated, to buy heavily for forward delivery. Thus a duplication of orders, to insure deliveries, is beginning to appear. It is hardly more than three years ago that just such a condition of speculative buying helped to bring about the dangerous era of inflation that ended in a collapse; hence, many cautionary statements are now appearing designed to hold in check any undue buoyancy. While the lessons of experience are not readily forgotten, these cautionary statements should have a good effect on those whose memories are short.

The Country's Change in Two Years

THERE is, of course, a difference between being sanely cautious and unreasonably fearful, but at the present time it would be difficult to find in the country any unreasonable fearfulness regarding the outlook, especially in view of the active employment of labor. Some one has said that because so many persons were converted by the recent depression to the idea that we never would see good times again, the present period of prosperity seems to have something uncanny about it. It does seem a bit unreal, the manner in which employment conditions have swung far over, from one extreme to the other, in a period of less than two years. In the summer and autumn of 1921 there were 5,000,000 working people idle in the United States; now we have practically a full employment of labor, rising wage scales, and industries not able to satisfy the demands which are made upon them.

There is a growing scarcity of labor, and the question of how to make up that scarcity is coming to the front as it has not done since the height of the war activity in 1918. Wage increases have occurred in every industrial community, not because of strike threats but because of the restimulated demand for manufactured products and the competitive efforts of employers to command labor supplies. Bidding for shop and factory workers, mill hands, bricklayers, plasterers and other forms of labor has become a general thing; anxious to get more labor to enlarge their operations, employers have found more places for men than there are men for places, and in an effort to fill those places have offered higher and higher wages. The result is a marked enlargement of the country's daily and weekly pay roll, without, however, a marked increase in the number of workers employed or in output.

Effect of Rising Wages on Output

THE offer of increased wages is an age-old method of bidding for workmen, but more dollars per week in a pay envelope do not create new hands, nor do they enlarge the supply of workers when that supply is already fully engaged. Practically speaking, the entire man power of the United States is now productively employed, and even though rising wages were to attract into the productive pursuits some of the women and girls who were engaged in the war industries in 1917 and 1918, and such idle or lazy men who are still unemployed, the additional help would not have a sufficient influence to avert a serious labor shortage should the current nation-wide demand for goods continue.

Limitations Imposed by Immigration

LABOR is essential to the production and distribution of wealth, and in other years a rapidly increasing supply of labor through immigration, leading to an expanding rate of production and distribution, was regarded as essential to true prosperity. Opinion, at least among an influential number of people, seems to have changed with respect to the essential part played by immigration on our prosperity. So, with the 3 per cent immigration restriction law in effect, barring our ports against any inrush of foreign labor, we now have the supply of able hands in this country definitely limited. Indeed, the Department of Labor records at Washington indicate that, for a considerable period, more *workers* have emigrated from the United States than have come in, immigration being predominantly of other than the producing classes.

That a lifting of the ban on immigration would relieve the danger of acute conditions, so far as the available labor supply is concerned, hardly needs to be said. There are vast numbers of skilled and unskilled workers abroad who would gladly undertake the journey to America for the chance of steady and profitable employment. In Great Britain alone more than 1,200,000 workers are registered at the labor exchanges as wholly unemployed. On the continent this number is multiplied several times, and the possibility of reducing the appalling total of idle hands in Europe depends wholly on the hope of a universal trade revival, or, as an alternative, migration of a part of the surplus.

There are many aliens seeking admission to the United States who are physically, mentally and morally normal, and who would constitute an aid to our civilization and progress. Opposition is very strong, however, to any proposal for drawing on the foreign surplus to make up our shortage, and though the condition here is one which contributes very directly to raise the cost of living and throw the country's productive mechanism out of gear, even the plans submitted for increasing the immigration of desirable workers, and insuring the country against an overflow of worthless aliens by heading them off at the port of embarkation, are steadfastly frowned upon.

Consequences of Labor Shortage

THE question of immigration is one that is of course largely dominated by political consideration, for, as one astute observer has pointed out, "never will any legislature proceed to the avowed end of getting American wages down; too many political victories have been won through the urging of the other argument." As for the consequences, they remain to be seen. Labor shortage in and of itself will not bring an end to our national prosperity, any more than an inability to run faster will bring an engine to a stop. But in dealing with the subject of labor it is not a question alone of shortage; there are the related questions of wages, prices, profits and psychology to be taken careful account of. Extraordinary wages do not add to the output of steel, lumber or other goods unless those wages attract labor or make it more efficient; rather they increase the risks of business and add to the burdens of cost. One of the country's largest individual employers of labor recently pointed out an important phase of the matter in a statement in which he said:

"Paying higher wages, temporarily, than a plant can pay permanently, does not increase production or do anybody much good. Oftener it results in decreased production and is harmful to the men. Under the stimulus of unnaturally high wages, workingmen are induced to assume responsibilities which they cannot carry out in normal times, or when wages are reduced or when the men are laid off, and so the whole failure backs up until it overflows business men in every line."

Effect on the Mental Balance

THERE is just as much possibility of disorganizing labor's mental balance, in a period like that of the present, as there is of inflating credit, and it is in the effects of the present situation on labor's own mind, plus the wage and price dislocations involved, where lie the possibilities of unfortunate consequences. It was not the labor shortage of 1919 that brought about the industrial collapse of 1920; rather it was the extraordinary inflation of wages, prices and credit, plus the attitude of mind which developed, that warped every sense of value and right relations to such a degree that not until the bursting of the bubble was it realized how far the dislocations had gone.

Most desirable at this time would be a condition of stability in both prices and wages, with an adjustment of the country's purchasing power so that of prosperity would be spread over every class. Rising wages are a rule in a period of expanding business, but what cannot be emphasized too strongly just now is the fact that in the present period of expansion wages have started upward from a considerably higher level than prices. In other words, the deflation of 1920 and 1921, though drastic, did not break down the level of hourly and weekly wages in a degree measurable by the collapse in prices and the general cost of living, so that labor costs in our industries, by advancing more rapidly than prices, have contributed to get the industrial situation increasingly out of line. A recent computation for New York State showed that average weekly earnings of factory workers were more than 100 per cent higher than in 1914, while wholesale prices were on an average 57 per cent higher than the pre-war level.

Disparity Among the Industries

AS a general thing, it is the wages of factory and mill hands, railroad employees, building trade workers and unionized or exceptional operatives that show the largest returns at the present time. Doubled money wages do not hold in agriculture, among clerks and other salaried workers, or, for that matter, generally over the field of employment. Certain classes of people are profiting largely at present, and certain industries are prospering. But profits and prosperity are not evenly distributed, and the disparity is one of the factors militating against a prolonged and healthy extension of the present scale of manufacturing and mercantile activity. "My personal opinion," wrote a correspondent of this Bank recently, "is that highly organized labor is getting altogether too much out of the common annual production of wealth. It is getting it not at the expense of capital so much as at the expense of other classes of labor, particularly the farmer and the farm laborer."

Here, then, is a mark of weakness in the present situation. Labor's wage scale has lifted the standard of living in our industrial communities to a point previously unheard of. But the farmer's scale of income during the past few years has been such that it has resulted in a decline in purchasing power, initiative and incentive among the rural communities, leading to a shift of man-power away from farms and villages to factories and cities. For New York State alone the farm dwellers within a single year have been reduced 32,000, or nearly five per cent, while the number of hired men on farms has fallen in twelve months more than eleven per cent.

Looking to Future of Prices

As already indicated, the recent wage advances at factories and mills have not proved a hardship to manufacturers, for they have found their margin of profits insured by rising prices. The losses have fallen upon those engaged in industries whose products have commanded low prices but whose purchases have been made at high prices. In time, economic forces have a way of equalizing matters and wiping out inequalities, and in time the good fortune of the farmer must match that of the factory worker, else the farmer will go out of business. But if the good fortune of the farmer entails rapidly rising prices for farm products and rising living costs, it may be expected to alter the factory workers' condition materially, and lead to a series of demands for relief from that quarter. Up to now no labor difficulties in the major industries are threatened, inasmuch as wage advances have anticipated every possible immediate demand for higher returns. But if living costs advance rapidly, and if employers fail to continue wage advances, we may expect a period of growing labor unrest, with a new series of wage contests. A generation has gone by since the principle was questioned that men and women who work for their daily wage are worthy of their hire and must be dealt with justly; there is no longer any question of the principle of justice to labor. But it is worthy of note the wage disputes in recent experience have not been so much to determine questions of justice as to determine questions of privilege and power. As a distinctive thing, labor does not think very far along these lines for itself. It lets its leaders think for it, and in times when feelings run high it follows most blindly those leaders who appeal most openly to selfish desires. In too many cases the rank and file do not oppose extreme views, even when they are palpably unjust.

The present situation is one of labor peace; a continuance of this peace depends in very large measure on the restraints that are exercised in coming months in the matter of business development. Without possible large additions to our labor supply, and with wage and price advances adding little to the total industrial output of the country, it would seem the part of wisdom to hold further changes in check in order that the healthful condition of business may continue.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, June, 1923.

NOTWITHSTANDING a sharp change that has come over business sentiment recently, trade throughout the country is being conducted at an active pace. Labor is practically all employed, and even at the current elevation of prices the demand for goods continues sufficiently strong to warrant full time and overtime, with high wages offered by employers in an effort to extend their working forces and keep abreast of orders.

That there has been a change in business sentiment every one knows, and, all things considered, it is not a matter of unmixed regret that the public temper should now be different than it was a month or six weeks ago. Then, in the enthusiam of rising prices, rising wages, and a rapid turnover of goods, there were signs that the situation was getting out of hand and that speculative activity was playing an increasing part in what was under way. In March and April, and as recently as in the early part of May, the conviction seemed to be general that prices were embarked on a prolonged upward course and that nothing could halt production or check the forward sweep of prosperity. With the opening of June a new state of mind is manifest, the change having been one that has restored to business men a cool judgment of affairs and a vision of the situation in its true relations.

Discretion is now the order of the day, and instead of a speculative accumulation of materials at rising prices, with a duplication and reduplication of orders like that which led to disaster in 1920, a spirit of caution is disclosed, and there is no longer the rush to make extended commitments or distant deliveries or to accelerate the speculative upward swing in the price movement. With speculative buying tapering off, and with the business world taking a sane view of things, the conviction that prices must continue to rise rapidly is no longer generally held. Under the circumstances, the change is healthful; it will serve to extend the prevailing prosperity and turn it into the lasting kind, for it is axiomatic that the way to avoid depression is to prevent the development of extravagance during the prosperity phase of the business cycle.

Assuring Factors in the Situation

THERE has been no fundamental development to halt production or bring about collapsing prices and unemployment during the coming months, and though the severe decline which occurred in security values has been looked upon in many quarters as an ill omen, giving signs of an impending setback in business activity, it is not improbable that the importance and degree of the stock market's prophecy has been considerably over-estimated, as has occasionally been the case before. Wall Street's judgment is human, and therefore fallible; moreover, violent upward and downward swings in security prices are often due to circumstances other than those arising from the volume of trade. The outlook in nearly all the basic industries is on the whole reassuring, and activity will continue unless price advances and wage advances go further than they have done, and throw business wholly out of balance. What is going on in the building trades is a fair warning of what may come if speculative upbidding of prices is resumed and is carried too far, and if misguided counsels prevail among the ranks of the workers. The building boom has been recognized as supplying a considerable part of the foundation of our structure of national prosperity, but this boom has encountered such an obstacle in the way of high costs that construction activities have been checked in New York city and other parts of the country. With increasingly excessive costs of material, and with workmen becoming increasingly unreasonable in their demands, a general wave of protest has resulted in a suspension of operations, and this has halted building projects running into many millions of dollars.

Who is Responsible for High Wages?

ANY review of the business situation is inexact that places the entire condemnation upon labor for whatever weakness there may be in the present industrial structure. Wages are high, it is true, and arrogant demands for still higher wages are being made. The country's wage scale, however, is being fixed in the majority of cases not by the workmen, but by their employers. These are so eager to secure the services of skilled and unskilled hands that they are bidding against one another for them; hence high wages are the outcome of the competition among employers, and this competition may be expected to go on so long as the public places orders with those employers at rising prices, and so long as the available supply of labor continues to be restricted. Plainly, then, wages will rise further if prices rise further, and whatever harm comes eventually will be due to the lack of control in our economic system which makes prices unstable, but which makes wages so inflexible that although they readily follow prices upward, they resist any decline save that forced by prolonged unemployment.

Draining the Farms for Factories

THERE are many significant aspects to the labor situation; not the least important is that having to do with the effect upon our agricultural regions of what has recently gone on. High prices for manufactured goods and high factory wages have brought about a great shift of labor from the agricultural sections to the industrial communities, and at some time in the future, although not immediately, the broader consequences of this will be felt. The farmers have not prospered during the past three years, which accounts for the readiness and the volume of the flow of labor from the farm to the factory. But it is inevitable that at some point the pendulum of prosperity will swing the other way; then it will be found that with the supply of agricultural labor inadequate, and with the urban labor market oversupplied, a return flow from the factory to the farm must begin, with many consequent dislocations. A change involving these things is still in the future. It may not involve the outlook immediately, but it is something to consider in making calculations for the longer outlook.

The Situation in the Money Market

AS related to credit conditions, it is quite generally recognized that the recent change in the business temper has not been due to any signs of strain in the money market. The banking reserves of the country and the rediscounting resources are sufficient to meet every current demand without greatly increased charges for credit accommodations; at the moment the situation is one in which rates are a trifle easier. Rates will not fall very far unless trade suffers an unexpected depression, with sharply falling prices; the money market prospect turns mainly on the prospect of business volume and prices, with the situation vastly different than it was in 1920, when the banking reserves of the country and the rediscounting resources were strained to their utmost capacity.

Our Prosperity and Foreign Markets

ALL that is going on draws interest once more to the relation that the business of foreign countries bears to our prosperity. For the past year or more we have prospered without a prodigious export trade, and not a few people have seized upon this fact to dispute the statements so often made that America cannot be truly prosperous without finding an outlet for a part of its production abroad. The feverish industrial activity of the country during the early months of 1923 has been carried forward with our export trade cut in half as compared with three or four years ago, and actually falling below imports. For the four months ending April 30 the excess value of merchandise imports over exports was $88,894,000. Last year, for the same period, the excess of exports over imports was $271,789,000. Two years ago the excess of exports was $937,996,000. In 1920 the excess of exports was $1,124,369,000.

It is an important and highly significant sign of the times, this turnover in the country's balance of trade. But after all it does not disprove the necessity which will confront us of finding a foreign outlet for our surplus goods when the bareness of our mercantile shelves shall have been made good. Ours is a land with a tremendous capacity for using goods, but its capacity for producing goods is even greater than its capacity for using them, as shown by the fact that in nearly every year for more than half a century we have shipped a surplus abroad. According to the records of the Department of Commerce there have only been seven years out of fifty-two in which merchandise imports of the United States have exceeded exports; in the remaining forty-five years the excess of exports has run to many hundred millions of dollars. There has never been a prolonged or important trade boom in this country which has not been accompanied by an expanding export trade, and we know the country has not been sufficiently made over by the new wealth that has been created, the new banking resources, and the accumulation of capital and gold, to change completely the fundamental basis of our prosperity.

Underlying Forces in Present Situation

SPECIAL circumstances have operated lately to swing the balance in favor of imports. Costs and prices in the United States have risen much faster than has been the case abroad, and this has induced shipments hither. Chaotic conditions in foreign countries have curtailed exports from the United States. It is still altogether too early to make positive prediction regarding the movements of foreign trade during the summer and autumn months, nor is it essential that our export trade should immediately run beyond imports.

What is essential, however, is that over a longer period foreign markets take that part of our production of raw materials and finished goods for which there is not a normal outlet in the United States. Domestic markets cannot be expected indefinitely to supply adequate orders for the output of our grain, meat, cotton, copper, iron, steel and industrial products generally, and it goes without saying that if we are presently given a reaction from the hectic domestic activity of recent months, we will look for foreign markets to take our surplus rather than permit a considerable part of our equipment to be abandoned or scrapped until domestic markets grow again to match their capacity for reduction. Four or five months ago, on returning from a visit abroad, Frank O. Lowden, former Governor of Illinois, asserted that without foreign markets this country ultimately would have to sacrifice 30 per cent of its wheat fields, 20 per cent of its corn fields, and 50 per cent of its cotton fields, and would have to close a part of its mines and factories and generally revolutionize its commerce and industry. In spite of the activity which has been seen throughout the United States since that statement was made, its inference is still clear, and it can be asserted now, as positively as any time before, that the country cannot flourish permanently in the absence of a much better foreign trade than it has had of late.

The Course of Affairs in Europe

FOR this reason, in addition to those other reasons having to do with politics, finance and humanity, attention is warranted in the development of affairs abroad. Newspaper headlines continue to emphasize the gravity of the unrest on the continent of Europe; the movements of the rates of foreign exchange continue to confirm the extent to which that unrest has affected the relations of finance. Yet matters are not altogether disquieting; progress along many lines, not told about in the newspaper headlines, has been made. Speaking at a public meeting in Washington on May 16, Secretary of State Hughes said:

> "Today, notwithstanding the gravity of unsettled issues, we find throughout the world ample reason for encouragement in the earnest efforts to remove the economic evils following the great war, in the exhibition of enhanced industrial capacity, in the swift repair of damaged areas, in the extraordinary extent of recovery despite all difficulties. So great has been the progress that it is not too much to say that the whole aspect of affairs would instantly change if only means could be found to dispel the fear and apprehension which is the barrier to accord and to give a sound basis for the confidence which all desire."

France, Germany and World Prosperity

STANDING out most boldly as a barrier to accord is the hostility between France and Germany; from all surface indications, that hostility is as great as it ever was. But it is altogether impossible that some point of agreement between those two countries does not exist. The present situation is one that is too intolerable to continue much longer; both France and Germany have too much at stake wilfully to block accord. This country has a stake in what is going on, but as for insisting arbitrarily upon a settlement of the present dispute, that continues to be out of the question. It is recognized that if peace and good-will are to return abroad and if they are to be lasting, the amount of the German reparations must be settled by Germany and France—not by outsiders unless at the joint request of Germany and France. It must be such an amount as Germany is satisfied it can pay, and will undertake to pay with the feeling that it can succeed in doing so. It must be such an amount as France will be satisfied to accept and that will enable France to be relieved of a part of the crushing burden of its present debt.

Once the amount of the reparations is finally agreed upon, a long step will have been taken toward restoring the financial stability of Europe. Following that settlement it is quite certain that a loan to Germany could be agreed upon, both as to security and terms, to which investors of England, the United States, France and the smaller countries of Europe might readily subscribe and to whose advantage it would be to subscribe.

Such a loan, widely offered, would mean cooperation in business and finance which at the moment is quite lacking. Offered to the people of the various countries mentioned, such a loan, if properly presented, would be readily subscribed, because upon study of the question it surely must be obvious that it would be to the great advantage of the business of the several countries and consequently to the individuals of those countries to have the matter of Germany's and France's finances settled, and to have it taken care of through the cooperation of all concerned. The people of this country are concerned as are the people of Europe. We are concerned because the peace of the world is involved and because with peace there would be great demand for the things that we produce. Once the breath of financial and industrial life is breathed into the situation abroad it will unfold in such a way that the financial undertaking which may look large now will be very much minimized then.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, July, 1923.

WITH practically a full employment of labor throughout the country, with iron and steel output surpassing all previous records, with credit conditions sound, and with favorable reports of the growing crops, there is presented at the moment a decidedly cheerful business picture in the United States. Although it is midsummer, production is above normal, and manufacturing communities are so active that they continue to bid earnestly for both skilled and unskilled hands, and wages are at their highest peak of the year. Freight loadings on the railroads have lately averaged close to a million cars a week, being far in excess of any volume ever reached except at the height of the autumn transportation activities in the two years 1920 and 1922.

The degree of the country's activity surprises many people, yet there is substantial promise of profitable trade and a full employment of labor through the remainder of the year. There are few signs of excessive commitments for goods, heavy stocks or inefficiency in the conduct of business; on the contrary, the mental condition of business men is saner than it was during the early part of spring, when there were signs of a runaway demand for goods, at rising prices, and when a duplicating and reduplicating of orders indicated the entrance upon a speculative and dangerous era in the trade boom which threatened to rush events to a climax. That condition is now changed. Trade reports show that the volume of buying is considerable, for shelves are not overstocked and it is recognized that if they were permitted to become bare a wave of buying might presently come unawares and send prices rapidly upward. But a healthy measure of caution governs industrial and mercantile operations, and from raw materials to finished products buying is carefully conducted, with the buyers willing to take some chances on the contingency of higher prices rather than run the risk of having stocks on hand later on that might not sell.

Prices as a Factor in Prosperity

WITH respect to prices, it is quite clear that they are to be reckoned with as an increasing factor in the country's prosperity. On an average they are now 12 per cent above a year ago. Mounting wages in a number of industries have provided certain classes with an enlarged buying capacity that keeps abreast of prices, but the hardships involved among those classes whose income is limited make it increasingly difficult for them to satisfy their needs and to contribute the measure of their buying to the general prosperity. Whatever rise in prices has occurred lately has been accompanied by increased stinting on the part of those whose income did not expand as prices rose. This may be expected to go on if prices rise further, although it does not necessarily follow that a buyers' strike like that of 1920 is impending. So long as the conviction obtains that general prices are to rise people will go on buying as far as they are able; it is when prices turn downward, and the prospect presents itself of getting things cheaper by waiting, that people all together stop buying.

However, if prices move upward much further from their present level, it is certain that many economies will have to be practiced, and people will more and more do without the things they want. Agricultural communities have for some time given an example of necessary economies. Farmers, unable to gain a sufficient return from the sale of their crops, and with their credit curtailed, have been compelled to stint even in those things they regard as essentials. The same has been true, although to a less notable degree, among the salaried classes—office workers and their like whose income has failed to keep up the march with prices. One thing serving to limit our export trade is the prevailing scale of prices which forbids foreign customers to purchase heavily here.

Effect of Labor Cost on Prices

LABOR cost is the element which most directly determines the prices of our industrial output, and it is as prices in the future are affected by wages that labor will exercise an important control, for good or ill, over American prosperity. There is at the moment a situation in the United States wherein the demand for goods is greater than the supply, and wherein those who most urgently require the goods produced by labor must pay labor's price.

Examples of how this condition has been utilized by labor for its own benefit are innumerable; one outstanding example, that given in the New York building trade, will suffice as an illustration. The need for shelter in this city has been so great that it resulted some time ago in an expanding building boom. The organized workmen were not slow to seize the opportunity to assure for themselves the best terms possible in the situation. Wages were forced to a scale far above any known before; a ten year comparison between June, 1913, and June, 1923, showed such increases in basic wages—excluding overtime and customary bonuses—as 100 per cent for cement masons, portable engineers, plumbers and carpenters; 110 per cent for stonecutters, bricklayers, plasterers and steamfitters; 150 per cent for painters; and 170 per cent for bricklayers' and plasterers' helpers.

These advances were accepted for a time as the reflex of an extraordinary situation, to be corrected when conditions returned to normal. But recently, when it began to appear that the building boom was flattening, the bricklayers' organization, by a strike which tied up construction, succeeded in forcing an agreement with their employers whereby $12 a day, hitherto the peak wage, was established as the standard basic daily wage for a period of two years to come. Thus was it shown how the wage appetite grows with feeding, and, moreover, thus did one group show its purpose to take care of itself against exigencies, no matter what happened to others.

Power Exercised by Working Classes

NUMEROUS wage advances are now being demanded by organized workers, and the suggestion made to reluctant employers is to "raise your prices and let the consumer pay". From every present sign labor is in power in the United States; its services are in demand, both its supply and its output are limited, and the consumer must satisfy his requirements. Severe restriction of immigration, severe control over trade apprenticeships, severe limitation of hours of work, and maintenance of the dead-level system which among unions establishes as a standard of work the output of the least efficient, have all contributed to place labor in power. It may be expected to continue in power so long as the determining factor of the country's business is the degree of imperativeness with which the public must buy labor's output.

How National Welfare is Affected

IT will be seen from this brief reference to one aspect of current affairs that the question of wages touches not alone the welfare of a class of American people, but vitally concerns the well-being of all. It is important to keep before us the fundamental principles involved, in view of the bearing that this question has on our national prosperity. No distinction between the prosperity of the "capital classes" and the "laboring classes," is implied, nor is this an argument that men and women who work with their hands should not have a living wage and should not be dealt with justly. Indeed, what requires to be emphasized more than ever in the present situation is justice in the relations not so much of employer and employee as in the relations of one class of labor with another.

For what has been noted before is becoming increasingly evident; namely, that highly organized labor is getting altogether too much out of the common production of wealth, getting it not at the expense of capital, but at the expense of other classes of labor. The difference, then, is between what might be termed two camps of workers; the "privileged" and the "unprivileged." Or, to put it another way, the difference is between those who have utilized rising prices to force higher and higher wages for themselves, and those who have been left at the mercy of rising prices.

Uneven Distribution of Wage Benefits

IT is the uneven distribution of wage benefits which contributes to make this era of business prosperity an unbalanced one. Prosperity in any country cannot for any length of time be one-sided, nor can one class thrive permanently at the expense of another. One class of labor, that which is organized, is preeminently thriving today, while others are languishing, or at best receiving only moderate returns for their effort. Farmers have for several years sought unsuccessfully to solve the problem of matching rising prices of the things they buy with falling prices of the things they sell. Great numbers of them have given up the effort, abandoned their farms, and joined the ranks of the wage earners. The exodus of negroes from the agricultural communities of the South to the industrial centers of the East and Middle West has lately attracted much attention; it finds its cause in the condition referred to. Many farms in New York State have been abandoned and farm dwellers here have been reduced 32,000 within a single year. In Pennsylvania, according to official returns, there are this year more than 9,000 farms vacant and 301,000 acres idle in fifty-five of the state's sixty-seven counties. These illustrations prove their point beyond the possibility of argument.

The Essential of Lasting Good Times

PROSPERITY, if it is to continue in the United States, must spread far enough to be enjoyed by all classes. It must be enjoyed by the clerk, the farmer and all those others whose purchases in the long run help to support industry. Much of the buying which has brought such prosperous conditions to industrial workers during the past few years has been of the imperative kind, to make up the deficiency created by the war. But that kind of buying will not go on indefinitely unless it is encouraged by reasonable conditions. There are degrees even of imperative buying, especially in a country like the United States, where normally the production of goods runs beyond consumption, foreign countries being counted upon to absorb the surplus. Just now, as already shown, foreign countries are not buying heavily here; they are selling more than they buy.

At some point, then, the uneven distribution of wage prosperity must begin to right itself, and it rests largely with the consuming public where that point is, and when it will be reached. An epidemic of fresh wage demands, like that which now seems to threaten among organized workers, will not help the situation. If buying of manufactured things falls away, and especially if high prices forced by high wages are responsible for a breakdown in the buying demand, it will be seen that the employment of labor and the level of wages are governed in the long run by other laws than those of labor organizations, and are not always determined by agreements. Business is carried on for profit and can continue to be carried on only under conditions which permit profit. The cost of earning a dollar can never for any length of time be more than the dollar itself, hence, if presently instead of rising prices in industry we find that prices are falling, and if we find that the incoming dollars of business are fewer while the outgoing dollars are more, we shall discover a new element in the situation—one with which those who seek to maintain excessive wage scales for a favored class, at the expense of a class which is less favored, will have to cope.

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OF THE CITY OF NEW YORK

New York, August, 1923.

CONSPICUOUS activity was until recently an outstanding feature of trade throughout the United States; the buying of manufactured goods ranged from 20 to 25 per cent above the level which business men generally regarded as normal. Activity continues to be an outstanding feature of trade throughout the country, but lately this activity has assumed a more restrained pace, and there is now under way an adjustment to something like a volume of buying consistent with the normal needs of the American people.

Though it is still to be determined how far the recession has been seasonal, and how far it has been due to fundamental changes in the conditions which govern the broad swings of prosperity, the movement to date has not caused any widespread alarm concerning the immediate future. With domestic conditions for the most part essentially sound, with production well maintained in most lines, with no signs of any considerable unemployment or wage recessions, with commodity speculation restrained, with no awkward accumulation of goods, and with the requirements to be filled of more than 100,000,000 of the most favored people on the globe, the business prospect for the balance of the current year continues to be distinctly hopeful.

Activity of Current Trade

THOUGH forward buying has diminished, consumption has not fallen off greatly, as may be judged from the movement of goods over the country's railroads. Freight car loadings in the middle of July were close to the highest record ever reported, a weekly total of over 1,019,000 cars comparing with 850,000 a year before and 776,000 two years before. In six out of eight weeks since the opening of June railroad car loadings have exceeded the million mark. In 1920 this mark was reached only on five occasions, and then in the fall of the year. The million mark was reached only twice in 1922, and never in 1921 or in any week prior to 1920.

Looking Beyond Immediate Future

IT will be judged from the current record what a momentum has been given to trade. Because of this momentum, and because of the anticipated booking of new orders as the fall trade opens, it is expected that mills and factories will continue fully employed for some time to come, with the demand for goods well abreast of supply during the remainder of 1923. New business in iron and steel, after a summer lull, is already developing a definite tendency to expand; bookings at the close of July were brought to a point where they equalled shipments. This is a significant indication regarding the outlook, and even those who do not scan the future with the most cheerful eyes agree that the promise is one of profitable trade and a full employment of labor during the remainder of the year.

Every period of abnormal activity arouses a spirit of business optimism which is difficult to curb, and in face of the recent uncertainty and the drastic liquidation in the security markets, there are many people whose faith in the prospect is still so sustained that they count upon an even greater business expansion in the future, when what they look upon at present as a "breathing spell" intervening between two active seasons has run its course. Basic factors in the general economic situation, as already shown, warrant hopeful expectations for the next few months. But with respect to the longer outlook, that is another matter. Conditions are in the process of development which presently may operate as tempering factors in the situation. The forces serving to depress the prices of agricultural products; the impending Presidential campaign; the unbalanced wage situation throughout the country; the unstable conditions abroad; these are factors which, we may expect, will all play an important part in the country's business affairs as time goes on.

What Is to Our Best Interests?

IT is in view of the possibilities contained in these factors that it would by far be to the best interests of the country were a moderate rate of industrial output, and a stabilizing of prices, to be brought about in the coming months. It is not necessary to our national prosperity that the output of our manufacturing industries should go on indefinitely running ahead of the normal rate of consumption, as it has done in the year to date. It is not necessary, either, that prices should go on constantly advancing. It *is* necessary to our prosperity, however, that the output of our industries should be assured a wide and permanent market—wider and more permanent than that which supplied the demand of the past year.

Making Up Past Shortages

IT is commonly recognized that the present year's flush demand has been abnormal, the rate of production having exceeded the rate of normal current consumption in exactly the degree that production was directed to overcoming the shortage of dwellings, motor cars, equipment and other necessary facilities, and to the replenishment of stocks that became depleted when production of peace-time goods was previously curtailed. Normally the agricultural districts are large buyers of manufactured things, while, in addition, foreign countries are depended upon to take the excess production for which there is no domestic demand.

The apparent paradox of record-breaking production this year, without heavy buying from the agricultural states, and without an enormous export trade, has been accounted for by the needs of the many thousands who have moved into the cities and by the necessity to make up the shortages of past years in domestic production. The nation's unfilled requirements are still in a measure a consequence of the war episode; people this year have bought what they would have bought between 1914 and 1919, if the war had not come. There was a vast underproduction of peace-time goods then, and this has been in the process of being corrected.

Uneven Distribution of Prosperity

BUT prosperity as we have known it in 1923 has been too unevenly distributed to be assured of permanence. It has existed in defiance of foreign conditions, and to some extent of domestic conditions. Continued long enough along the lines followed this year it would become increasingly unwholesome, until finally, with the buying of the agricultural districts curtailed, with the buying of the foreign markets limited, and with the shortage overcome in the cities of those things for which there has been so great a demand, a setback would inevitably occur. Without a widening of our markets, the rate of industrial output reached just before the middle of the year, and the excited activity which attended the price up-swing then, could not be repeated without threatening the country with a period of inflation and rising prices, an ultimate over-production of goods, an accumulation of menacing surpluses, and then deflation, falling prices, and unemployment.

Changes in Our Living Standards

TO what degree the buying power of the agricultural communities must be restored to insure continuing prosperity, and to what degree foreign markets must be depended upon to absorb our surplus output in the future are points which at the moment are impossible to determine. Vital changes in many directions have taken place since the close of the war; not the least of these has been a marked increase in living standards in the United States, while those same standards elsewhere have been declining. Living standards in our cities are higher than ever before, which means an enlarged use of the output of mills and factories. But the rate of increase in the urban use of manufactured goods and the decline in the value of agricultural products have not, we may be sure, been sufficient in two or three years to place our prosperity wholly in the keeping of our cities, or to wipe out the influence of our agricultural communities on American prosperity. Nor has it completely nullified the influence of our oversea trade on that prosperity.

Where Demand for Goods Comes From

COMMENT has been frequently made of late that we are no longer an agricultural but a manufacturing people, and that we are no longer dependent upon foreign markets to take our surplus output. One comment along this line which has appeared in print supports itself thus:

> "There is more work ahead of us than can be accomplished in a hundred years. Building activities, even those of the national government, are ten years behind. Highways are to be built not only by the tens but by the hundred thousands of miles. There are swamps to be drained, mountains to be lowered, valleys to be raised. River and harbor improvements are pressing for immediate attention in order to lessen the strain upon the railroads. Railroad transportation is so inadequate that we need to spend at least twelve to fifteen billion dollars to provide facilities equal to the actual requirements of the country's trade."

Ours is still a pioneer country, and there is vast opportunity for development requiring capital expenditures. But it is not capital expenditures alone that make prosperity, and comment on fundamental changes in our business life and on the alteration of our markets, to be sound, requires a knowledge of many developments in the matter of production and distribution which are not clear to us now.

The Division of Prosperity

THE view may be a sound one that the need today is more than ever for manufactured products; it may be, further, that this country, even without the farmer's buying, has within itself sufficient consuming power to insure continuing prosperity regardless of all other nations. But all this remains to be proved, and until it is proved the belief will hold with the majority of people that failure to enlarge the farmer's purchasing power, and failure to broaden our export trade, will in time mean a general slowing down of American business. Indeed, without a wider and better balanced distribution than is now seen, and without a level of costs and prices that will make it possible for goods to move freely, it is the belief of those whose optimism regarding the future is tempered by a study of our economic history, that this slowing down cannot be far removed.

The Plight of the Farmer

CONDITIONS in the agricultural districts of the United States, even though they have not yet served to bring depression to our industrial communities, are nevertheless the subject of widespread attention. Wheat and pork prices lately have alike touched their lowest levels in nearly ten years. With the prospect in view of a new supply of agricultural products that will equal and in some cases exceed last year, with a surplus of production in view, and with practically every foreign producing country reporting larger crops than before, the outlook is one which is disturbing to the farmer who must find a market for his new output and who must accept from that market whatever price is prevailing at the time of his sale.

There is a political as well as a business aspect to the present situation. The agitation to have congress "do something" for the farmers becomes more active as time goes on; the recent election in Minnesota of Magnus Johnson to the United States Senate was recognized as a protest on the part of the Western farmer against the conditions which have driven the price of his product down to the present level, and as a desire to have an additional voice among the law-makers who are to meet in Washington next December. New credit plans are suggested as a means to help bring about a rise in the price of wheat, and President Harding has been formally asked to support a valorization plan that will utilize the government's agricultural credits system to withdraw 200,000,000 bushels from the market, keeping this supply in warehouse until a better price than that now prevailing can be obtained.

Importance of Decline in Wheat

THE condition of the farmer whose sole income is derived from wheat is at the moment unmistakably discouraging. At the same time, there is a confused state of mind throughout the country regarding the matter that is manifesting itself in hysterical and contradictory discussions among political and business leaders. A depression in the wheat market must of course have an effect on general trade, but as a matter of fact wheat of itself represents only 5 to 7 per cent of the total farm output of the country. Moreover, even at the present price level, there is a substantial percentage of the country's farmers who can market wheat and gain a profit. The most bitter complaint at the moment comes from those Western farmers who have never interested themselves particularly in mixed farming, and who year after year have contented themselves with staking their entire fortune on a single crop.

Pennsylvania, Ohio and Illinois are large wheat producing states, yet there has been no great outcry from the farmers there because of low prices, and no political upheaval like that of Minnesota is threatened in those States because of the way in which the wheat market has suffered. Largely this is due to the fact that by diversifying their crops the farmers of the east have protected themselves from just such a disaster as the westerners now believe they face.

The Danger of Government Help

IT remains for the next congress to disclose how much strength is behind the movement to have the government enter the wheat business. That the plan is unsound can readily be demonstrated, but the danger is that political expediency rather than sound economics may govern the attitude of congress toward this question when the time for its consideration comes around. There is no more sound reason why the government should be asked to restore the price of wheat to the figures desired by producers than it should be asked to advance the prices of other goods whose makers are not finding business as profitable as they would like to have it.

As a matter of fact, any valorization precedent might in the long run do more harm to the wheat producers than good, for with other industries later on insisting upon the government doing for them what it did for the farmers, and guaranteeing profitable prices, the farmers might find themselves paying far more for what they have to buy than if the ancient law of supply and demand were left in undisputed control. Valorization of this year's crop would inject the government into a situation from which it might with difficulty be extricated without a pronounced reduction of wheat acreage in the future, not only at home but abroad.

After all, the difficulty of the wheat farmer is due to world conditions, in which other countries alike are seeking now to produce more wheat for themselves, and buy less from others. As it stands now, we are cultivating between eleven and thirteen million more acres of wheat than in 1913. The situation is one that is bound to bring hardship to those who must sell in the world's markets, but its solution lies not in legislation and credit so much as in economic forces which have a way of working themselves out in time.

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OF THE CITY OF NEW YORK

New York, September, 1923.

THERE is a common agreement that Calvin Coolidge, as the country's Chief Magistrate, enters upon his new duties facing more difficult and diverse problems than have fallen to other Presidents, save perhaps those who led the country in times of war. Yet the business world shows no apprehension over the change that has occurred. A confident tone has marked the reports on trade and finance from practically every section of the country, and the momentum of current activity has failed to reflect any misgivings regarding the change.

Very largely this is because no variation in party control has taken place, and because President Coolidge has announced a purpose to carry out the policies of his honored predecessor. Of course, the personal equation is important, but the former Vice-President is regarded as being well fitted to assume the responsibilities which have so suddenly fallen upon him, and is counted upon to meet problems squarely and give positive direction to the Government's affairs. He is fundamentally conservative and opposed to any sharp change or sweeping shift of direction. This gives assurance that even though there be an added decision and firmness to the country's administration no revolutionary factors need be feared. He has definite ideas concerning the limitation of man-made laws when these oppose economic laws. This gives assurance that many of the strange and disquieting proposals now being offered at Washington will not carry as far as otherwise they might.

The Coolidge attitude toward the relations of government and business, to judge by his public utterances, is one that may be expected to have an important bearing on the problems which involve labor, the wheat grower, the railroads, the Treasury's fiscal policy, and foreign affairs. "The people cannot look to legislation generally for success," he has said, and again, "No scheme of government aid is likely to make us all prosperous." He has said, further:

> "The structure on which modern business prosperity rests is very delicate. It is easy to disarrange it. It is difficult to sustain it. It cannot be promoted by legislation which is founded upon mistrust of the motives of honesty and fair dealing which guide the great mass of mankind. Not only the necessity but the honor of business enterprise should be recognized and declared. . . . As I see it, there has been altogether too much meddling by the government, meddling in the people's business, in what should be their private business. So long as a business man conducts his business legitimately, he ought to be let alone and have every possible freedom. . . . There seems to be in this day not only too much meddling by the government, but an inclination on the part of the people to come running for the government's aid."

Obligations of the New President

IT is because the President is a clear-thinking man, with a thorough knowledge of basic economics, that his administration is confidently expected to be marked by an opposition to all the unsound movements which have recently been afoot in the nation's capital. Those who have most carefully considered his public utterances of the last two years look now for these things: (1) A discouragement of government interference with legitimate business. (2) An economical administration with a reduction in the annual budget. (3) A further revision of tax laws, with a lighter draft upon individuals whose incomes are moderate. (4) An effort to assume economic leadership in world affairs without entangling the nation in foreign politics. (5) An opposition to panaceas as a means of solving agricultural and other similar misfortunes.

Division of the country into classes, groups and sections, and the formation of blocs among the country's representatives, each trying to secure success at the expense of others, is a thing decried by the President, and his public acts hereafter may be counted upon as likely to be in accordance with his view that "it is not enough for a man to belong to a class; it is not enough that he be attached to a section; it is not enough that he be a manufacturer or a farmer; success requires that he be just American."

Statecraft and Foreign Affairs

WITH respect to the relations of business and statecraft, there are many signs that the mood of the country is changing, and that it is looking again for strong leadership, especially in the matter of the nation's most pressing problems, which after all are international. Europe's present turmoil has definite reactions on the United States, and even though moral forces at this time may fail to prompt our active participation in foreign affairs, practical considerations involved are carrying us steadily to a point where constructive action will inevitably be taken.

Confusion Over Present Conditions

IN a material sense, not only is the future of our foreign trade to be considered as a factor in the case, but there is the matter of conserving what we are already committed to. The people of other countries, directly and through their governments, owe in the United States sixteen billions of dollars. That figure alone shows the financial stake we have in hastening the re-establishment of peaceful intercourse among the nations of Europe, and in speeding the work of reconstruction. The restoration of international well-being requires now, more than ever, a spirit of understanding and tolerance. Sometimes we believe that this spirit is making progress. Then again we are disillusioned and our hopes drop. For the present, the Ruhr situation dominates all others abroad; hence, with the relations of France, England and Germany what they are, we are at a loss to know how to turn, and until a firm point is established at which cooperation shall begin, and until the Coolidge administration shows the way, our part will continue to be clouded and obscure. But in the long run we shall not be able to dodge the fundamental issue of our relations with Europe, and sooner or later our part in overcoming the troubles which upset the world will have to be distinctly defined. If, ultimately, a peaceful and normal condition is to be restored abroad, if the standard of life there is to be raised from the point to which it has fallen, and if our own foreign trade and credit relations are to be put on a secure and lastingly profitable basis, this country must have a part in the economic affairs abroad.

Activity of Domestic Trade

IN the meantime, the domestic wants of the American people will be counted upon chiefly to sustain the country's industrial activity. As a matter of fact, the demand for goods to satisfy these wants has been so large over the past two years that shrinking exports have had no apparent effect on the general welfare. Exports now appear to be increasing somewhat, while domestic conditions warrant the belief that continuing activity will be seen for several months to come. Domestic demand for goods, both for immediate and forward delivery, is large, and there is sufficient buying power in evidence to insure the maintenance of current production, provided, of course, no untoward circumstances arise. Activity is not at the moment at high record, for though there are many favorable factors in the existing situation, those of an unfavorable nature have brought into being a spirit of caution which exercises considerable influence in the determination of business policies. This is not regrettable; caution insures against a runaway condition such as was threatened at the height of the buying movement earlier in the year. Also it contributes to stability and prolongs the period of prosperity which the country is enjoying.

Buying Power of American People

IT is a general hope that domestic demand will continue large, and that it will support business against any painful or disastrous reaction. The buying power of the American people has for years been a constant source of amazement to economists, and has repeatedly confounded predictions of calamity that were based on theories of overproduction. Two summers ago there were 5,000,000 working-people without employment throughout the country, and grave concern was felt thereat. Practically all of these people have full employment today. Only a little while ago the war-time expansion of our industrial plants brought about a technical situation in which it was believed there would be no need for expanding manufacturing plants for a long while to come. Many of these plants had come to a point where their capacity was believed to be far beyond current needs. In face of this belief, there has been a pronounced expansion, and still the supply of manufactured goods has fallen short of demand.

Moreover, the railroads and many of the public utilities have carried forward important betterments, while public improvements by states and municipalities have been of extraordinary magnitude. Then, too, there is the item of new building construction, both for business purposes and homes, which has literally absorbed billions of the people's savings in the past few years, and which, in spite of the continuance of high prices, gives promise of absorbing a great deal more. Agricultural development, it is true, has had a setback, and the agricultural communities have been more concerned with liquidating old debts than in undertaking new developments. Still, considering the country as a whole, the demand for the things that contribute to life and comfort has been amazingly large, and has given another example of the wealth and tremendous buying power of the American people.

Effect of Credit on Prosperity

JUST what the longer future holds is of course a matter of conjecture. One intelligent surmise is as good as another. Much depends on the continuing development of our domestic resources. Much, after all, depends on world conditions, and on the effect those conditions have on our prosperity. The determining influence will be the ability of purchasers to pay for what they buy. Production of one kind of goods always provides an ability to pay for another kind, so that the rate at which goods of one kind are produced and distributed will govern the production and distribution of other goods. That is the basis of all trade, domestic as well as foreign.

The productive capacity of the United States is the greatest of any nation on earth, and the wealth of the American people is a measure of their ability to pay for what they buy. In addition, the borrowing capacity of the American people is another measure, and it must be admitted that up to now our prosperity has been based in no small part on extensive credit operations. In other words, people as a whole have not paid for all their current purchases out of current income, but have pledged future income to buy what could not be paid for spot cash. The situation during the past several years has been not unlike that of 1917 and 1918, when the Government was issuing war bonds, only more recently the bonds and other securities were issued by private interests, states and municipalities.

Volume of Loans Floated in 1923

THE volume of borrowing to finance current purchases and supply present wants has been represented, during the past few years, not alone by short-term borrowing at the banks, but by the creation of bond issues and the drawing of mortgages. Collectively the American people have gone heavily into debt. During the first six months of 1923 the new bonds, notes and shares issued in the United States, according to the *Financial Chronicle*, amounted to $2,472,000,000. From the opening of 1922 to July 1, 1923, eighteen months, the grand total of new security issued in the United States was close to $8,000,000,000. There is no compilation of mortgages, private loans, etc.

In addition to the business enterprises, a great deal of borrowing has been indulged in by the states and minor political subdivisions of the country—counties, townships, school districts, etc.—the monthly volume of such borrowing having run beyond $100,000,000 for many months, carrying the grand total of all these obligations to a point close to $11,000,000,000.

These loans have provided funds for streets, schools, water supply, sewers, public buildings, fire apparatus, parks, museums, bridges, fountains, stadiums and monuments. The degree that borrowing for unproductive purposes has increased is a matter of much concern, because of the fear that in many communities new debts have been increasing more rapidly than sources of taxation.

Debts for Productive Purposes

ONE can readily understand that improvements such as streets, bridges and parks have in themselves no earning power and produce no revenue. Loans to provide these improvements require interest and amortization that must be cared for out of taxes, so that the ability to support these new unproductive debts rests upon the enlargement of taxable wealth.

To what degree this vast use of credit has been justified will be determined as time goes on. As for the loans incurred for revenue-producing utilities, that is entirely another matter. If interest payments are met regularly, if there is no default at maturity, if those who negotiated loans are benefited withal, and if the wealth-producing power and the comfort of the community in general have been increased, there will be no doubt regarding the justification for the financing that has been done. Permanent improvements and development of great magnitude have come about during the past few years by reason of credit operations, and, looking forward, there are many plans for the enrichment of the people that can be carried out provided the necessary credit is forthcoming. The portion of the earth which contains the United States needs an endless amount of work to be done on it. The possibilities are great. Still, in looking forward there arises the question as to how far credit will continue to be available to finance operations where cash is not immediately at hand.

Where New Credit Will Come From

THE commercial banks, backed by the resources of the Federal Reserve system, are in a position considerably to extend their loaning facilities in the interest of legitimate commercial transactions which are self-liquidating. It is not short-term banking credit alone, however, that is called upon to finance the operations which are in contemplation. These will require investment funds, and the volume of those funds will be determined by the savings of the people and the uses to which those savings are put.

It will be worth while, in coming months, to study the movement of the security markets, in order to gain there an indication of the manner in which funds are forthcoming from the rank and file of savers to support that part of the country's prosperity which must count for its continuance on the successful marketing of new securities. If the volume of savings declines, it will be because of a diminishing earning power on the part of the rank and file of wage-earners, or it will be because a growing portion of their wages is going into goods of immediate consumption. If the volume increases, it will be because of an increased earning power on the part of the rank and file of wage-earners, or it will be because of a desire on their part to have more of a share in the things which make up the permanent wealth of the country. An increased volume of saving will mean a more balanced and continuing prosperity throughout the country; not only that, it will mean in the long run an increase in the supply of those things which contribute to the betterment of the individual in particular, and society as a whole.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, October, 1923.

A FEELING of conservatism marks the business situation in the United States at the present time, yet the buying of goods is large and steady, prices for the most part are well maintained, and production continues on an active scale. The underlying base for a continuation of good business is firm, and one favorable aspect contributing to insure continued activity of production is the absence of any undue accumulation of unsold goods on sellers' shelves. This does not mean that there is any notable dearth, but it does signify that output in the immediate future will not be interfered with by reason of large quantities of unsold stocks of previous production.

Optimistic views regarding the outlook are tempered, but are far from having given way to pessimism. It is much better, all things considered, that the quickening in autumn trade should not now be at a notable pace, for, coming on the top of the boom which occurred in the spring and early summer, any attempt to force a rapid expansion would create an abnormal situation which would have to be corrected, perhaps painfully, later on. So far as the labor situation is concerned, that is more satisfactory, from the standpoint of the general welfare, than it was in the spring and early summer.

Wages and the Labor Situation

WITH respect to wages, there has not been any let-down here, although industries which are paying high wages and at the same time high prices for raw materials are not in the most favorable position when it comes to matching their expenses against income. One feature of the industrial situation in the United States throughout 1923, and one that has an important bearing on the outlook, is the comparatively small margin of profit left to the producer, manufacturer and distributor, after their expenses are taken care of. Business has operated, and is operating, under the handicap of excessive labor costs, and though it has been possible to pass a part of the burden on to the consuming public, through the general rise in prices, the margin of profits among the country's industries has been measurably curtailed. The problem of expenses geared up high, with prices possibly working to lower standards, is something to consider for the future, particularly if there is any pronounced decline in consumers' demands. Wage scales are always flexible on the up-grade, but on the down-grade there is a marked resistance to adjustment, which leads to strikes and needless hardships.

Favorable Sentiment of Country

AS a test of the country's state of mind, recent events have proved that to be far from sensitive. A change in the Presidency, a coal strike, an unprecedented calamity in Japan, an appearance of war clouds in Europe and a climax in the Ruhr controversy—all these have failed appreciably to influence the business or financial fabric of the country. So far as the banking situation is concerned that has been marked by a distinct evidence of strength, and funds have been ample at all times to meet the requirements of business.

Whatever uncertainties there may be in the current situation are of an international character, and find their origin for the most part in the foreign credit situation and in the politics of

Europe. With the formal abandonment of Germany's passive resistance to the French occupation of the Ruhr Valley, world finance as well as world politics enter a new phase, the unfolding of which will be watched with absorbing interest on every hand. For nearly nine months the contest of endurance in the Ruhr was carried forward; the Berlin Government abandoned the contest on September 26th.

Next Step in the Reparations

THE outcome remains to be seen. Much rests with the occupied country's ability to meet such demands as are now made upon her. Much rests with the attitude taken by France and by the Interallied Reparations Commission toward the proposed modification of the terms of the reparations. Much also rests with the progress that is made in restoring credit relations on the continent of Europe, and stabilizing the German currency. Furthermore, much rests with the progress away from the political chaos in Europe that seems to block every step which might be taken to establish economic order.

It seems like a mockery of fate that, five years after the close of the war, its outcome should be so much more in doubt than at the hour of victory that no two men are in agreement as to just where lie the fruits of that victory, and what they are worth. M. Poincaré, the French premier, has for months protested that his country stood alone in seeking to force Germany to a disclosure of her real paying ability, while throughout France there has been a deep resentment against the manner in which events were turning, and an insistence that no solution be permitted that would leave France to stagger under the weight of the visitation which Germany unloosed upon her, while the war culprit was permitted to get off comparatively free.

Views of the Outside World

AS a matter of fact, and despite the many protests which have been made from time to time against the Ruhr occupation, there has at no season been any evidence of a general desire that Germany should escape her just penalties. Decent men continue in agreement that justice can only be served as she makes amends to the utmost for her crime against civilization. Germany needs to be punished, in order that the example may stand as a warning to possible future offenders against the world's peace. She needs, also, honestly and decently to shoulder her responsibilities, in order that her victims may not themselves have to bear the whole cost of their suffering. For her share in bringing about the war; for making it more bestial than it ever need have been; for wanton ruin of property; for calculated cruelty, harshness and injustice; for offences against innocent people: for these Germany must atone.

Logic, law and every human instinct prompts the insistence of an enforcement of the claims. The dilemma is met in determining what claims the economic factors will allow, and despite the capitulation of the Reich in the matter of the Ruhr resistance, that is still as obscure as ever. In a practical world of affairs it is necessary constantly to take account of the practical considerations involved in the fulfilment of what is lawfully and morally right, and in the present instance practical considerations are such that they defy every attempt to find an easy way out of the reparations dilemma.

Difference Between France and Germany

PEOPLE have wondered why France in 1871 could pay her war indemnity without an economic collapse, while Germany's finances appear to have gone down under the burden. The answer is that the first concern in 1871 was to conserve the French credit so that the country should be able to pay, while no effort was made in that direction during the later episode. The French indemnity of a billion dollars represented two or three per cent of the estimated worth of France; the Germany indemnity equals a much greater percentage of Germany's worth. The indemnity placed upon Germany in 1919, at the time of the signing of the peace treaty, was thirty-two billion dollars, equal to about forty per cent of her total worth. That sum has been conceded as impossible of collection, but just what sum is possible has not been agreed upon at all. Chancellor Strese-

INVESTMENT SUGGESTIONS

October, 1923

MECHANICS AND METALS NATIONAL BANK

BOND DEPARTMENT

THE
MECHANICS & METALS NATIONAL BANK
OF THE CITY OF NEW YORK

Capital, Surplus and Profits $27,000,000

$78,000,000

AMERICAN TEL. & TEL. COMPANY

Collateral Trust
4% Gold Bonds

Dated July 1, 1899 Due July 1, 1929

Interest payable January 1 and July 1 without deduction of Federal Income Tax up to 2%. Denomination, Coupon $1,000, registerable as to principal.

Business: The Company is the financial and administrative center of the Bell system, an organization providing a nation-wide network of telephone toll lines and local exchange lines throughout the United States. The Company owns directly or indirectly about nine-tenths of the voting stock of its associated companies and 98% of the stock of the Western Electric Company which manufactures apparatus and instruments used by the Company.

Security: The bonds are a direct obligation of the Company and are secured by deposit with the Old Colony Trust Company, Boston, Trustee, of stocks and bonds of subsidiary companies having a total par value of $117,315,500. Under the terms of the indenture, bonds may be issued up to 75% of the estimated value of the collateral.

Earnings: We are advised that the total income of the Company available for interest charges for the year ended December 31, 1922, amounted to $81,668,440 or approximately 5¼ times said charges on its entire funded debt. Statistical reports indicate that for the last 5 years total net income available for interest charges has averaged over 4¼ times these charges.

General: As of December 31, 1922, the Company had outstanding $699,347,400 par value capital stock which, at present quotations, has an indicated market value in excess of $850,000,000.

Price to yield about 5.67%

STATEMENTS ARE BASED
SUBJECT TO PRIOR SALE

OTHER SUGGESTIONS

Approx. Yield %		Price About
4.50	**U. S. Treasury 4½% Notes** Series "C"—1925 June 15, 1925	100
4.50	**U. S. Liberty Loan** Third 4¼% Bonds Sept. 15, 1928	98 27/32
5.58	**Southern Pacific R.R. Company** Convertible 4% Gold Bonds June 1, 1929/*	92
5.63	**Cumberland Tel. & Tel. Company** First & Gen. Mtg. 5% Bonds January 1, 1937/*	94
6.00	**Northern States Power Co.** First & Ref. Mtg. 6% Bonds April 1, 1941/*	100
5.95	**American Smelting & Refining Co.** First Mtg. 6% Bonds, Series "B" April 1, 1947/*	100¾
5.75	**Great Northern Railway Co.** Gen. Mtg. 5½% Bonds, Series "B" January 1, 1952	96⅝
5.24	**Louisville & Nashville R.R. Co.** First & Ref. Mtg. 5% Bonds, Series "B" April 1, 2003/*	95⅝
5.45	**Chesapeake & Ohio Railway Co.** General Mtg. 4½% Bonds March 1, 1992	83

Maturity and redeemable dates expressed respectively as follows: 1945/26. Where redeemable at any time under certain provisions, indicated by an asterisk following the maturity date as 1931/*.

$31,500,000

PENNSYLVANIA RAILROAD

General Equipment Trust

5% Certificates

Dated March 1, 1923 Due March 1, 1924-38

Dividends March 1 and September 1. Certificates in bearer form in the denomination of $1,000, with the privilege of registration as to principal.

Certificates: Issued by the Fidelity Trust Company of Philadelphia, as Trustee, under an equipment trust agreement, in a form approved by the Bankers. $2,100,000 principal amount of certificates mature on March 1st of each year from 1924 to 1938, inclusive.

Guarantee: The principal of the certificates and dividends thereon are unconditionally guaranteed by endorsement by the Pennsylvania Railroad Company.

Security: We are advised that the Equipment Trust Agreement vests in the Trustee, title to new equipment costing not less than $39,375,000, which the Trustee agrees to lease to the Pennsylvania Railroad Company at a rental sufficient to pay the certificates and dividend warrants as they mature. Pending delivery of the equipment, cash equal to the principal amount of the certificates may be deposited under the Equipment Trust Agreement to be withdrawn as equipment is delivered, to the extent of 80% of the cost thereof.

Company: Pennsylvania Railroad Company's outstanding paid-up capital stock is now $499,265,700, having a present market value in excess of $425,000,000. Dividends on this stock are now being paid at the rate of 6% per annum and in no year since 1856 has the company failed to pay dividends on its outstanding stock.

Price to yield about 5.15%

E BEST OBTAINABLE INFORMATION, BUT RESPONSIBILITY THEREFOR IS NOT ASSUMED. QUOTATIONS ARE MADE
ANGE IN PRICE, PLUS ACCRUED INTEREST TO DATE OF PAYMENT. TELEGRAMS MAY BE SENT AT OUR EXPENSE.

TAX EXEMPT

CITY OF FORT WAYNE, IND.

5% School Dist. Bonds
October 1, 1930-35
Price to yield about 4.65%

STATE OF KANSAS

4½% Gold Bonds
July 1, 1933-36
Price to yield about 4.50%

CITY OF CLEVELAND, OHIO

4¾% Paving Bonds
Sept. 1, 1928-39
Price to yield about 4.50%

CITY OF TRENTON, N. J.

Funding 4½% Bonds
July 1, 1934-44
Price to yield about 4.35%

CITY OF NORFOLK, VA.

5% Water Bonds
May 1, 1952
Price to yield about 4.90%

LOS ANGELES, CAL.

4¾% Harbor Impt. Bonds
Nov. 1, 1941-60
Price to yield about 4.60%

STATE OF DELAWARE

4½% Highway Bonds
January 1, 1963
Price to yield about 4.35%

NEW YORK CITY

4¼% Corporate Stock
April 15, 1972
Price to yield about 4.28%

THE

MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

20 NASSAU STREET

Branches

PRODUCE EXCHANGE
25 BROADWAY

FIFTH AVENUE
204 FIFTH AVENUE

COLUMBUS AVENUE
COLUMBUS AVENUE AND 93rd STREET

MADISON AVENUE
MADISON AVENUE AND 60th STREET

SEVENTY-SECOND STREET
BROADWAY AND 72nd STREET

MANHATTANVILLE
AMSTERDAM AVENUE AND 125th STREET

STUYVESANT SQUARE
SECOND AVENUE AND 14th STREET

CENTRAL PARK
SEVENTH AVENUE AND 58th STREET

BROADWAY
BROADWAY AND 86th STREET

LEONARD STREET
BROADWAY AND LEONARD STREET

HARLEM
THIRD AVENUE AND 116th STREET

HARLEM MARKET
FIRST AVENUE AND 103rd STREET

mann of Germany has offered a total of $7,500,000,000; Premier Poincaré has suggested between $13,000,000,000 and $17,500,000,000, subject to adjustment of claims among the Allies.

It will be seen that there is no agreement on amounts. Nor is there agreement as to the character, methods, or the terms of collection. Germany's obligations to the Allies represent foreign debts, and when the subject of what is involved in the payment of such debts is examined, even briefly, the expert as well as the casual student becomes hopelessly confused in applying the principles of international finance to the problems of the indemnity. The difficulty is not only in fixing the amount of reparations, but in determining the amount that Germany is able to pay, the amount other countries are able to receive, and the methods of payment.

Ability to Pay and Receive Indemnity

CONCERNING Germany's ability to pay, M. Poincaré, in an address at Toul just before the close of September, said that "her capacity for production remains intact; the present crisis has suspended her ability to pay, but has not destroyed it." Germany's ability to produce, and her extraordinary efficiency, have long stood her in good stead, and despite the circumstances under which she has operated during the past few years, there is ample testimony regarding the strength of her material resources and the readiness with which she is able to produce. But after all the root of every difficulty in the reparations problem lies not alone in Germany's ability to pay, but in her ability to pay in a coin which the Allies can and will accept. Nearly three years ago Mr. Lloyd George recognised this when he said, "Germany could pay, and pay easily, inside her own boundary; but she cannot export her forests, railways, or land across her frontiers and make them over to the Allies."

Germany can find no financial markets in which to float loans in order to pay the Allies her claims, hence, if it is to come about, the payment of the reparations must involve a direct transfer from Germany to other countries of tangible wealth; wealth, for instance, that if it cannot be represented by fixed capital assets must be (1) Gold and silver, (2) Paper money, (3) Labor and services, (4) Raw and manufactured goods.

Where Germany's Available Assets Lie

THE amount of gold remaining in Germany, according to the figures of the Reichsbank, is less than $130,000,000, a sum too small to make much impression on the country's external obligations. As for paper money, the current value of the mark shows how far the use of that is impossible. As for the employment of German labor and service, other countries have been manifestly unwilling to undertake this, for such employment would cut deeply into their own occupations. Great Britain for several years has had an army of unemployed workmen; France has persistently refused to permit the reconstruction of the devastated areas by German labor. As for German goods, different countries some time ago hastily erected tariff barriers because they feared they might be inundated with cheap German products which would ruin their own manufacturers and merchants.

The truth is becoming increasingly plain that the role of creditor in the matter of reparations is about as difficult as that of the debtor; the road to travel in collecting the debt is proving about as thorny as is the one to pay it. Without adequate gold or credit, with its paper money valueless and with its labor shut in at home, a transfer of goods appears the single feasible way by which Germany can pay her creditors. Yet it is plain that such a transfer would necessitate a colossal expansion in the country's trade, one which would involve a rebuilding of Germany as a great industrial machine-shop, a recovery of her national prosperity, and an establishment of her international trade position on a higher elevation than ever before. Her extraordinary efficiency, which some of her former enemies would gladly break down, would have to be encouraged, strengthened and promoted.

That, it will be said, is not a pleasant picture to paint for those who have suffered in the past by reason of Germany's efficiency. But it would seem inevitable that unless Germany is encouraged to produce she cannot make payments on reparations. Such encouragement, of course, would bring about a fundamental change in the country's affairs. For while it is true that German manufactured goods have in the past found their way into every part of the world, it is further true that by its nature Germany is an *importer* of goods more than an exporter; for many years her balance of merchandise trade has been on the side of imports. During the six years prior to the outbreak of the war—1908-1914—the yearly excess of imports over exports was $400,000,000.

Questions for the Future

WAS there ever, on a large or small scale, a situation involving war reparations more complex than that with which Europe is now wrestling? To an American observer there is nothing more bewildering than the economic and financial problems abroad, which are so intermixed with political problems as to defy any clear interpretation. Will the ultimate outcome of the whole tangle be a partition of Germany for her failure to pay, or will the treaty terms be modified, not for Germany's sake principally, but for the protection of the nations whom the indemnity had originally been expected to help? Will the program of the future be determined in light of a belief that the economic prosperity of the world is to be promoted by the economic recovery of Germany, or will it be governed by an opposing belief that the disintegration of the German industrial system is necessary for the general peace and welfare?

These questions are easier to ask than to answer. Answer will have to be given soon, however, for Germany has come to a point where, with broken down credit and a worthless currency, outside leadership must be provided if her affairs are to have a positive direction. Her pseudo business boom has become a thing of the past. The mark is now useless as a standard by which to gauge values, and its function as a paying instrument grows daily less, as might be judged from a comparison which shows its value to have fallen to 300,000,000 for a dollar before the close of September, as compared with 9,500,000 for a dollar at the close of August, 1,000,000 for a dollar at the close of July, 160,000 for a dollar in June, 1,700 for a dollar in October a year ago, and 4 for a dollar when all was normal.

Need for Stabilizing Europe

HOW so highly industrialized a unit as Germany is to carry on without credit and without a generally recognised currency is a mystery. In default of a stable credit system and a generally recognised medium of exchange, the circulation of goods would of course come to a standstill, save when barter entered in. For Germany to avoid becoming an economic derelict, a proper relation between production and consumption must be maintained, and in a country of 60,000,000 highly trained people, money forms the only connecting link.

There are many hard tasks ahead for those who are charged with reorganizing Germany's affairs. Yet those tasks are not impossible, if the Reich holds together and if the people work. For one thing, the decline of the mark is such that with a comparatively small sum of gold Germany could cancel its entire mark indebtedness, domestic and external, and have no debts thereafter except what is agreed upon for reparations, plus a small external gold loan, still unpaid, of a few million dollars.

Interest in all that occurs abroad during coming weeks will be none the less keen because of the relations of American business and finance to what goes on. Deterioration abroad, or recovery, have their bearing on our affairs, not only because of the vast sums owing in this country by Europe, and the potentiality of the markets there, but because of the political and social effect of what takes place. The importance of this is not to be minimized, hence the problems merit both sympathy and material consideration on our part, and perhaps an active participation in those places where we can help without getting mixed up in a turmoil where our eagerness to be of assistance might fail to be effective.

MEM

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NOV 8

THE MECHANICS & METALS NATIONAL BANK
OF THE CITY OF NEW YORK

New York, November, 1923.

BUSINESS throughout the United States is active, and prospects for the remaining weeks of 1923 are for an excellent rate of production and a wide distribution of goods. Measured by all the normal standards, the country is in a prosperous condition. Labor is well employed at high wages; the physical volume of output is large; freight car loadings are at their peak of the year; commodity prices on the whole are stable and relatively high; the banking and credit structure is thoroughly sound.

True, business is not up to that of last spring, when activity was at flood tide and when production reached a higher point than was ever before attained in this country. But it is far from being poor, and to say that it is poor, as some people are saying, simply because it is not so good as it was at the height of the year's boom, is altogether misleading. Output of manufactured goods is from 5 to 15 per cent below the 1923 peak, but at the same time it is from 10 to 40 per cent above the autumn of 1922, and then the country was considered to be experiencing real prosperity.

Holding Optimism in Check

MEASURED by figures, there is nothing wrong with the volume of trade in the United States. Yet one cannot fail to sense a spirit of caution that holds optimism in check, nor can one overlook the significance of a hesitant forward buying of goods and a depressed stock market. Every reasonable assurance that good business is in store for the months immediately ahead, on a scale well above that of 1921 and 1922, have failed to stir the business or financial imagination, consequently a common criticism on the part of those who insist upon being cheerful is that something is wrong with the country's psychology. Perhaps that is so. Perhaps, on the other hand, it is not alone psychology, but the uncertainties of politics, agriculture, labor, prices and foreign affairs, which in the popular mind offset business assurances and account for the check that is placed on optimism at the present time.

Influence of Congress on Business

THERE is a great deal of uncertainty with respect to the next Congress and with respect to the presidential campaign of 1924. A congress with narrow party pluralities is traditionally one that moves with care, especially on the eve of a presidential election, yet there is a widespread fear regarding possible assaults next month upon the railways and other specific lines of enterprise, and there is misgiving regarding the lengths Congress may go in such matters as agricultural relief, bonus legislation, taxation, appropriations, and industrial control.

The new Congress will contain an increased number of professed radicals, and despite the doubt that is cast upon their strength, it is only natural that fear should be aroused by the threats of attack upon the Transportation Act, by prospective demands upon the Treasury for $100,000,000 to $500,000,000 for farm relief, by revival of the soldier bonus, by proposals to restore burdensome tax levies upon capital, and by the possibility of a heavy increase in appropriations for non-productive purposes. Having since last spring been wholly free from legislative influence, business and finance have again come under the spell of what is said and done in Washington, and will respond for three months at least to what goes on in Congress, and thereafter to what the presidential campaign brings forth.

As for another uncertainty, labor, there is little to say that is new. High wages are a rule throughout the country, and although the decline from capacity production has modified one factor which operated to inflate wages earlier in the year—namely, competitive bidding—there is little evidence of any downward turn in industry's labor costs. Without a generous addition to the country's labor supply through immigration, the available supply of able-bodied labor is still limited to the man-power within the United States. That man-power, although it receives high pay, is operating below the peak of its efficiency. Were the increase in the output of labor proportionate to the increase that has occurred in wages over the past few years, prosperity would be on a sounder basis than it is. With wages on a high scale, and with no thought given by many wage-earners to any possibility other than to retain all they have and seek more, the outlook for industry is not encouraged by the labor situation.

Prices, Wages and Prosperity

THE ability of the country to go on indefinitely paying high prices forced by the high scale of wages is not unlimited. A considerable portion of the demand for the products of labor has been supported during the past year by the use of people's previous savings and by the use of credit. In a wave of prosperity people buy freely, and in cases where they cannot afford to pay in cash, they borrow. Having signed notes and pledged future earnings to satisfy current wants, there are many people—and they are by no means confined to the farming communities—who in the future will be put to the task of economizing in order to meet their notes, and who therefore will be disinclined to go on buying heavily, at high prices, the things that labor turns out for high wages. Likewise there are states, municipalities, villages and school districts which to date have borrowed more than they reasonably should have done, which soon may curtail their purchases, and thereby limit from another direction the demand for things turned out by labor. The farmer's reduced power to buy manufactured products has long been a matter of comment. Railroad buying is restricted. The shrunken ability of foreign consumers to buy is universally recognized.

Possibility of Over-Production

IN spite of all these factors, it had seemed lately that prosperity in the industrial communities of the United States was immune from any setback. It seemed, indeed, that the buying power of those who had means was so great that every factory wheel in the country could go on turning without bringing about a glut of goods, and every skilled and unskilled workman could be kept employed, indefinitely. Activity at the moment being what it is, it still appears that with heavy buying from the agricultural states absent, with many city-dwellers economizing, and with foreign purchases curtailed, the country can display a condition of prosperity, factories maintaining an excellent rate of production and no alarming symptoms appearing of over-production.

There are those to whom, in view of all this, the possibility of any slowing down of business in the near future, because of over-production, appears decidedly remote. Because human wants are too great ever to be fully satisfied, they are sure of a demand for all that is produced, and on the basis of that assurance they look for continuing industrial activity as time goes on.

Human wants, it is true, are never fully satisfied. What men and women use is limited throughout the world not by what they want but by what they can get. What they can get, in turn, is limited by what is produced. And what is produced—be it bread, shoes, coal, motor cars or any of the necessities or luxuries of life—never is enough to satisfy everybody. Such a thing as a general glut of goods, when there are human beings shelterless, unclad, hungry and destitute, is out of the question.

FINANCIAL AND BUSINESS REVIEW AND OUTLOOK

What Causes a Glut of Goods

AS a practical proposition, overproduction in a given locality or a given country is quite possible, however, when the distribution of its output is interfered with. It is buying power, or lack of buying power, that after all is the determining factor in the case. When money and credit are lacking, people cannot buy. Lack of buying power on the part of the American farmer, lack of buying power on the part of the American city-dweller, and lack of buying power on the part of the foreign consumer—these are factors which in the long run, unless corrected, are calculated to interfere with the distribution of American manufactured goods. In brief, then, the prospective danger to American industry turns upon a possible destruction of the equilibrium between the rate of output in established lines of production, and the rate of distribution, as determined by buying power.

Variations of Buying Power

IMPROVEMENT in grain prices has to some extent relieved the concern over the farmer's buying power in the immediate future. But the impoverishment of Europe, and the possible effect on our export trade of the economic and social confusion now seen there, hold out no promise of any immediate great and broadening outward stream of goods from our shores. Of course, this touches the question that comes up with continuing regularity as to how far we may be able to get along, as time goes on, without Europe and the other parts of the outside world.

The needs are vast of a country of 110,000,000 people, spreading more than three thousand miles across a continent. These needs have grown so, we are told on one hand, that domestic consumption now virtually equals production. Foreign trade must broaden, we are told on the other hand, or else American production will collapse.

Whichever of these contradictory statements ultimately proves to be correct, this much we know now: mass production of goods, made possible by, and dependent upon, a wide distribution through the channels of trade, is the outstanding feature of America's economic system. So long as it can be profitably distributed, the advantages of mass production are pronounced. But any reaction which suspends profitable distribution for any length of time imperils the system. Even so short a depression as that of 1920-21, it will be recalled, resulted in an overproduction of goods, temporary to be sure, but so severe that factories and mills shut down, and 5,000,000 of our workmen were plunged into idleness.

Production, Commerce and Social Order

THE whole thing, after all, gets back to the relations of industry and commerce to the general social order. Not many generations ago that social order was vastly different; the affairs of one community or one country bore little relation to affairs elsewhere, and the problem of distribution was never urgent. People a century ago were for the most part dependent upon themselves, and the social order was adjusted accordingly. There was no mass production and no need for wide markets. Enterprise was individual. Communication was slow. Manufacturing, trade and everything else was conducted in a primitive manner and in small units. Joined together at home only by dirt roads, and across the sea only by sailing ships, people supplied their own wants. The farmer produced the grain, the cobbler made the shoes, and the carpenter fitted the doors for an entire village, and only for that village. The women spun their own cloth. There was no concern about overproduction. Each community consumed what it produced and set its own living standard. If it prospered, it prospered locally. If hard times came, the depression was limited. If in Connecticut, for example, there was a good year, enriching the people, that had no effect on the affairs in Ohio, nor did it affect conditions in France. If in New York there was a period of depression, reducing the purchasing power of the people, that did not necessarily involve the planters in South Carolina or the manufacturers and laborers in England.

Science has revolutionized communication, and the devices of modern industry have made the area of trade world-wide. Our whole social and industrial system has tremendously expanded.

By enlarging the commercial world, and weaving it into an economic whole, the forces of progress have brought into existence mass production and opened markets; thus they have widened the avenues of opportunity, enlarged the total of human conveniences and comforts, and added to human happiness. Development has been amazing, and, as events in the United States since the close of the war have shown, is still in progress. As a young, rich and buoyant nation, we are in a transition from the individualism of the pioneer farmers to a social order which is not charted and of which men have only vague visions.

Dependence of Output on Markets

ALL this is wonderful and stimulates the imagination with hopes of the future. But from an economic angle, and for present consideration, we must not overlook the fact that in making over our system of industry and commerce, we have also helped to make over the relationship of people everywhere. Where under the old order people prospered or suffered individually, now they prosper or suffer together.

No community is any longer sufficient unto itself. None is apart from the world. Each is a portion of a whole, and there can be no upheaval in one group without it being transmitted, in the long run, with more or less severity to every other group. Mass production has gone a long way to do this. We have geared our output up to such a point that in the complexities of civilization, the need for markets has grown with the growth of output. With mass production has come the necessity for mass distribution, and commerce is now a vital element of prosperity. A million freight cars loaded in the United States in a single week for the distribution of American goods; motor trucks on every highway; scores of steamers leaving our ports daily with raw and manufactured goods: that is the picture of the present.

What Is Necessary for Good Times

CAPITAL, enterprise, organization and commerce having brought the human family closely together, it must be clear that if the people of this country as a whole are to go on producing enormous quantities of goods—quantities, that is, which are beyond immediate necessities and the sale of which will contribute to their prosperity—continuing equilibrium between the rate of output in established lines of production, and the rate of distribution, will have to be seen. Mass production of steel in Pennsylvania, of shoes in Massachusetts, of automobiles in Michigan, of copper in Montana, of cotton in Texas, of hogs in Iowa and of wheat in Kansas, and the prosperity of those places, depend in the long run upon a wide distribution of steel, shoes, automobiles, copper, cotton, hogs and wheat. And a wide distribution of those things depends, in turn, on a balanced prosperity, not alone of our urban communities, but of our agricultural sections and of foreign countries as well.

Time will show just how far we shall continue to be dependent upon the markets of the outside world which between July 1, 1913, and July 1, 1923, a period of ten years, took in excess of $50,000,000,000 of merchandise of American production. If events abroad shape themselves toward a crisis and threaten further to diminish our outward movement of goods, there will be need to consider the possibility of growing competition in order to sell at home the goods for which a foreign outlet is blocked. Despite all the statements which have been made about the United States being wholly self-contained, there are still those who believe that if we are obliged to depend upon home markets to absorb what is produced at home, competition will grow in intensity as time goes on, the proposition becoming an increasingly difficult one. Rightly or wrongly, these people believe that our producing capacity is still much in excess of our domestic requirements.

From the above brief review, it will be seen that in the United States there are many question-marks ahead. Perhaps it is these question-marks, as they relate to politics, labor, domestic buying power and foreign trade, in their bearing on the great producing machine which America has built up, that are responsible for the uncertainty which finds its expression in so many cautious views at the present time.

MEM

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DEC 4 1923

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, December, 1923.

WE have come to the closing weeks of the year; and the time is one when business men are looking both backward and forward—backward over a year that in material sense has been one of domestic activity and prosperity, forward into a year that promises, at least during its early months, to be one of good business.

No observer can fail to be impressed, in reviewing the year that is ending, by the degree in which domestic trade activity rose to a plane better than that of any previous year in American history, save only in the war period. In a material sense 1923 has been marked by distinct national progress, and while there are sections, particularly in the agricultural west, where disappointment is felt at the year's results, the country as a whole has moved forward and maintained a notable degree of economic health.

Certainly the condition of trade and finance at the close of the year augurs well for 1924, and it can fairly be said that our outlook is one that every other country of the globe would gladly exchange for its own. Our industrial position is one of strength, without the appearance of embarrassing supplies of unsold goods which might seriously threaten the current price structure. Our labor is well employed at high wages, and was never before so well off as now. Our banking position is one of pronounced strength, with a credit supply that is available for any emergency.

True, the country's condition is not wholly uniform as regards its condition of economic health; there are some industries which are not as well off as others with respect to outlet for their production, and there are those where decreased margins of profit have made operations at current price levels and labor costs unusually difficult. The difficulties confronting many of our farmers, the weight of our domestic taxes, the obstacles faced by our railroads, the quandary of producers, manufacturers and distributors whose books show a comparatively small margin of profit after their expenses are taken care of, the extremely high level of wage scales: all these are matters worthy of the closest attention. But on the whole the situation is one that permits a hopeful view of the immediate future, and that practically assures the country against any violent adjustment like that which occurred three years ago.

The Future Trend of Affairs

ADJUSTMENT may of course be ahead; it goes without saying that the progress of the past is not a guarantee of similar progress in the time that is ahead. Conditions in our domestic business affairs have come about that need adjusting, and, after all, we cannot get away from the fact that our future welfare hinges very definitely on the trend of affairs in other countries, and that our prosperity will be augmented, as time goes on, or modified, by the degree in which developments abroad are favorable or unfavorable. Concern is chiefly felt with respect to the continuing political, commercial and industrial confusion abroad, and the wasting away of confidence among the scores of millions of very weary people on the continent of Europe.

Just how far international developments will serve to control our domestic affairs in 1924 is beyond anyone's power to judge. Were the countries which lie oversea as secure in their prosperity and their political institutions as the United States, the general prospect would be a happy one. But with respect to their outlook, it is indeed impossible to make any prophecy that is reasonably sure of fulfilment. In its trade and finance, Europe is so dominated by a spirit of misunderstanding, malice, despair and revenge, that any program for reorganization and reconstruction which follows the lines of sound economic principles cannot at the moment find an audience.

Our Future Progress, and Europe's

THE future progress of the world, and in no small measure of our own fate, are inescapably linked with the question of Europe's reparations, debts, trade and politics. Yet the American people are at a loss to understand the meaning of all that is going on abroad, and are a little bit tired of being told about repeated crises, with dire predictions regarding their meaning to America. Warnings have to a considerable extent lost their power to alarm, for American prosperity has to date failed to break down because of Europe's disturbances, and the rank and file of our people have at last concluded that the outside danger to our economic welfare is after all largely imaginary.

Internal Strength of United States

IT is not imaginary; the bearing of foreign affairs on our prosperity is very real. In a social sense we have a direct interest in the regeneration of whole nations of people who today do not know just where they are headed. In a material sense our interest is to be measured by the figure of $50,000,000,000 which represents the value of American goods that foreign countries have bought in the past decade.

Politically our ties with Europe are such that any primary development there is a matter of important concern to us; commercially our ties are such that Europe supplies a large and necessary outlet for American goods, and the prosperity of its markets is a matter of important concern. At the same time, the warnings of extreme danger to this country may quite properly be discounted. Experience has shown that the United States has a power to adjust itself to circumstances, and, even though painfully, to overcome the effect of outside misfortunes. Experience has also shown that misfortunes rarely go to the extreme that are predicted by frightened prophets.

The economic and political distress of Europe, consequent upon the war, is very real, and the cost of the war, in terms of moral values as well as in arrested civil and industrial progress, is still to be counted. But what is being seen now is not the prelude of any collapse of civilization or bankruptcy of Christendom. The war and the peace treaty have together plunged Europe into a confusion out of which no clear road has yet been found. Other wars and other peace treaties have in varying degrees done the same thing, and progress and development to higher standards of human existence have nevertheless followed. Three of Europe's greatest empires, Russia, Austria and Germany, have gone into complete extinction since 1917; even so, one assumes too much who says that their civilization is moving toward extinction. Three years ago Russia and Austria were said to be on the verge of utter breakdown. Those countries have progressed in the intervening time, and Austria in particular is now in a state that is described as really prosperous. That very fact is proof of the virility of Europe's institutions.

Lessons That Are Taught by History

IT is a prevalent opinion that Germany, in the multitude of difficulties which confront it, has lost much of its economic power. But Germany's history tells of recovery from wars that were thought to have left her people hopelessly crushed. The same can be said of France and Great Britain. Three times in the past two centuries France has engaged in devastating wars, and after each experience has resumed its place in the economic system, displaying a power greater than before. As for Great Britain, that country has repeatedly been described as bankrupt because of warfare, and cries of despair have often been raised at the nation's prospect. Great Britain's accomplishments of the nineteenth and twentieth centuries are evidence enough of how far from bankruptcy and extinction that nation was, even in its darkest days.

The dislocations of Europe today are serious, but they are not beyond correction. They are of human creation, and therefore are subject to human correction. Human agencies are standing in the way of recovery, and when those human agencies finally acknowledge their faults and correct them, and when the economic strength of the European continent is at last given an opportunity to reassert itself, recovery will be rapid.

The Convening of Congress

WITH respect to strictly domestic affairs, of perhaps most immediate interest to the United States is the convening of Congress, and speculation is general on the extent to which legislation, helpful or detrimental to the general welfare, will be carried through in the new session. There is some hope that the present Congress, although containing a number of radical minds, will content itself for the most part with speeches, for with the Presidential election ahead there is every incentive for politicians to straddle the various debatable measures in order that blocks of votes may not be antagonized through the enactment of laws which are distasteful to important bodies of voters.

Restraint of Congress on Business

IT would be a distinct relief were the incoming Congress, after adjusting the nation's tax laws in accordance with the suggestions which have been made by Secretary of the Treasury Mellon, to take a recess. Laws have been made during the past few years to cover nearly everything. The country is still seeking to adjust itself to these, so that an early recess on the part of the present Congress would relieve business of a very definite restraint. As an example of the existing state of mind, there is a distrust of the future of the railroads because it is feared that Washington, always given to railroad baiting, will now consider a great number of bills designed further to hamper the operation of the transportation lines. All that the railroads are now asking is a period of freedom from destructive legislation, and it would be to the interest of the country were the agitation suppressed for a time on the part of those who seem to consider the railroads an object of continuing and relentless attack.

Tax Measures and Secretary Mellon

SO far as tax measures are concerned, the statement which has been made by Secretary Mellon to the effect that the present burdensome levies should be lightened, and his program for bringing that desired condition about, have concentrated attention on the prospect for relief at the hands of Congress. The figures of the Treasury Department name $3,500,000,000 as the total of the Government's ordinary expenditures for the current fiscal year, this sum including $500,000,000 on account of sinking fund and other requirements of the national debt. The total is smaller than that asked of the American taxpayers in any year since 1917, but it is large enough to prove a real burden, especially in view of the requirements of States, municipalities and other public bodies, whose expenses in recent years have risen so far that the whole volume of taxes paid by the American people now reaches an appalling figure. It is all very well to say that the more highly civilized a people are, the higher are their taxes. Up to a certain point taxes yield advantages in proportion to their amount, and civilized communities expect to bear the cost of good government. At the same time, when taxes reach a point whereby they invade the people's income too deeply, they place a definite check on industry and incentive.

Uneven Distribution of Tax Burdens

PARTICULARLY is this true if the taxation that is imposed is not distributed equally and is not on a sound basis. It is manifest that in the present complex distribution of wealth no perfect or ideal system of taxation can be fixed, and that nothing more than rough justice can ever be attained in any scheme which seeks to levy on the public for billions of dollars for the Government's purse. There will always be inequalities in taxation; still the program of Secretary Mellon, as set forth in November, gives hope of relief from some of the inequalities which now weigh on business and divert essential capital from constructive into unproductive channels.

The argument for reducing tax rates at this time, it may well be understood, is not based upon any plea of consideration for the rich, but upon the proof that the existing schedules are resulting in harm to the country as a whole. Congress may be expected to waste little sympathy upon those who possess large incomes because of any complaint of excessive taxation, but it should be expected to determine its actions on lines of logic.

The Failure of Surtaxes

IT is the simple fact that existing tax schedules have resulted in definite harm to the country as a whole, and have about defeated their purpose, that leads to the present demands for adjustment. Secretary Mellon has in particular described the plan of surtaxes as a failure. These surtaxes have been directed against the largest incomes of the country to such a degree, and the rates have proved so onerous, that wealth has sought, and in no small measure found, concealment.

The need for supplying the money necessary for the Government has consequently fallen back on the small taxpayer. Seven years ago, in 1916, one out of every 337 income-tax payers in the country was in the so-called higher surtax brackets, paying a tax on an income in excess of $300,000. In 1921, one out of every 23,000 income-tax payers made returns on an income over that sum. The inference is clear. Tax payers who considered surtaxes confiscatory have withdrawn their capital from productive business that was taxable, and have invested it instead in tax-exempt securities or adopted other lawful methods of avoiding the realization of taxable income.

Large capital which might have financed new enterprises has been crippled and discouraged by the existing surtaxes, and, as already indicated, the flow of capital has been deflected away from those channels which contribute to the expansion of the nation's business. By penalizing the working capitalist, the man engaged in productive enterprise, industry has been hampered and discouraged, with evil effect on the business structure and finally with evil effect on the Government, for the surtaxes have now nearly abolished themselves.

It will be seen that the question confronting Congress is not alone one of volume of taxes, but also of proper adjustment. The economies effected in the operation of the Government warrant a reduction in the collection of revenues, and Congress has been shown how that reduction should be made, and where. The best interests of the country recommend the plan that has been put forward; its adoption would be a long step in the right direction.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, January, 1924.

WHAT may we reasonably look for in business, industry and finance in the year that we have now entered? What will the year mean in terms of national welfare? What material advantage may we expect to come from the changes that are to occur?

Questions like these are being asked quite generally at the present time, and are for the most part being answered in such a hopeful, even cheerful, manner, that they are leading to a wide expectation that 1924 will be a year of profitable business and sound progress.

The country has entered the year from one that in face of peculiar circumstances was attended by full employment, high wages, unusual prosperity and wealth accumulation, so it would seem that reasons for optimism at this time are well-founded, and it would seem further that the merits of the existing business situation justify in considerable measure the hopeful views that are being expressed. Factors which are operating most positively in favor of the country are of course the energy and ability of the American people, and their extraordinary facility for production and distribution.

Features of Strength for 1924

THE abundance of the country's supply of food and raw materials; the extent of the domestic buying power; the readiness with which the national wealth is responding to development; the adequate manner in which the credit structure is lending itself to every right demand—all these are factors decidedly favorable to the business outlook. A statement made by the Secretary of Commerce sums up the situation. In part he said:

> "There is more employment at higher real wages, more buying power, than in a decade. There is a large demand for homes and a great buying of building materials. Agriculture is behind, but shows distinct improvement. Aside from that we have never had a clearer situation than at present. There is an absence of speculation. Goods move swiftly from the producer to the consumer. There is nothing in the credit situation making for a collapse."

Financial Health of Country

ALL these factors, favorable in themselves, are supplemented by others of another nature, equally favorable, which were enumerated by E. H. Gary recently when he showed that we have "no wars, no revolutions, no uncontrollable plagues, no earthquakes, floods or other physical disasters, no social upheavals, no threatening financial, commercial or industrial cyclones, no enormous disturbances, natural or unnatural."

Nobody can mistake the fact that so many of the circumstances which have a bearing on the country's material welfare are favorable. In particular, and from a banking point of view, the financial health of the country is manifested in the strength of its credit structure. Bank loans in New York, as reported by a number of institutions, are below a year ago. In some of the other parts of the country loans are above a year ago and are higher than at any time before, with the exception of 1919 and 1920, but reserves also are higher by a wide margin, and with the exception of certain sections of the agricultural west, the difficulties of the credit situation which marked the country's affairs not long ago have been corrected. The banking system is in a strong position—so much so that in contrast with the pulling-in process of 1920 and 1921, there is presented a problem of how to direct the available credit flow, making it at the same time productive and secure.

An abundant supply of goods, a wide distribution, a large domestic buying power and an easy money market are all conducive to prosperity, and there can be no mistake as to their bearing, and the bearing of other favorable factors, on the country's welfare. At the same time there can be no mistake as to the bearing of those other factors, not so favorable, which also have a relation to the country's welfare. An abundant supply of goods and a wide distribution are essential to prosperity, but they are not absolute guarantees of continuing good times if there are other influences opposed. Reasonable money rates are essential to continuing prosperity, but they are not, in and of themselves, an absolute guarantee of prosperity, nor do they, simply by making it cheap to borrow, stimulate industry if there are other influences opposed.

What Holds Boom in Check

EVERY favorable circumstance that can be recorded at the present time is subject, because of other circumstances, to modifications and adjustments, and so we find that while 1924 is being entered confidently, it is being entered with the business and financial world subject to a series of more or less difficult problems, which are quite clearly defined and which will affect the country's welfare according to the way in which leadership is provided in the new year, and according to the way in which events, industrial, financial and political, influence one another.

These problems can be briefly stated. They include the extremely high wages in many industries, the elevated plane of living costs, and the disproportionate prosperity of our industrial and agricultural sections. They include the unreasonably burdensome scale of national, state and municipal taxes, the hostile attitude of certain groups of politicians to corporate interests, and the insistence upon extending government help where it should not go. They include the social and economic disorders of Europe, the disruptions of the international exchanges, and the credit and trade instability of countries which have long been identified with us through the channels of commerce.

Caution in Business and Finance

ALL of these problems touch on our material welfare, and inasmuch as they will vary in their bearing on the year's progress in accordance with developments which are not now determined, it can be understood why hopefulness for the year is not being translated into enthusiasm on the part of the average business man, and it can be understood further why trade in general, instead of being carried along on a forward sweep, is hesitant at the moment in the matter of forward commitments. The problems of labor, prices, agriculture, taxes, politics, foreign affairs and reduced profits are holding imagination so far in check that business in general is moving along at a steady and careful rather than an excited pace.

Activity is less at the moment than it has been for a number of months past, and it is conceivable that it may slip downward further before there is an upturn. However, there is immediately in sight nothing resembling a period of business depression; the features of strength in the present situation are too pronounced for that. There is one difference between the opening of 1924 and the opening of 1923 that is in favor of the present year. Last January there was under way an upward rush of business that speedily carried activity to a level which was too high to be maintained. There is no sign now of any general overbuying of goods, or of any overexpansion of credit which would lead to a runaway and perilous boom. "Caution combined with activity has created the present favorable situation," says Herbert Hoover; "with continued caution we will not be precipitated into a boom, and if we do not have a boom we will not have a collapse."

FINANCIAL AND BUSINESS REVIEW AND OUTLOOK

Scale of Production in Industry

AS a general thing, overproduction is not a feature of the country's industrial situation today; the consumption of goods is well up to production, which itself has fallen off. The decline in the output of mills and factories, considered in conjunction with the stability of prices and the heavy movement of freight over the railroads, suggests the absence of undue accumulations.

Exception is to be taken, perhaps, to particular industries where the capacity for production recently has exceeded the domestic ability to use the goods produced. Where industries have been expanded beyond domestic needs, and have come to depend on a foreign outlet, and where that foreign outlet has been more or less closed, it would be natural to expect that goods have piled up. Accumulations due to lack of foreign demand cannot be unusual, however, if the current figures of merchandise export trade are any criterion. The country's exports in November, the latest month from which returns are available, were in excess of $400,000,000, the largest of any single month in nearly three years. Although the high value of cotton shipments had something to do with swelling the total, this volume of a single month's exports makes it clear that foreign markets for the present are taking a large share of American output, and are thus contributing to keep the level of prices at their present plane.

Sidelights of Foreign Trade

A LARGE outward flow of goods at this time offers several extremely interesting sidelights on the current situation. For one thing, it shows that while Europe, our chief customer, is subject to every kind of social and economic disruption, its people are still able to provide the means to buy in large quantities the necessities of life which the United States produces in such abundance. More than five years after the close of the war, the situation abroad is in many respects so much worse than during the war itself that the currencies of the principal continental countries have declined to an unprecedented discount as compared with the dollar. Yet goods are flowing from our ports to those countries, and are being paid for. Even Germany, whose currency was at such a stage of debasement in October that marks were quoted at 6 and 7 billion to the dollar, took $32,700,000 of American products in that month.

That is one sidelight on the current situation. Another is found in the effect of the current export trade on the industrial activity of this country. Despite all the statements which have been made about the United States being self-contained, it is being shown that foreign markets still play an important part in our welfare, and that foreign purchases still supply an outlet for surplus production, contributing to the maintenance of our price and wage structure and to our general prosperity. The system of mass production of goods in the United States has been built up by a wide distribution of goods through the channels of trade, and the continuance of that system depends on the continuance of wide distribution. Our exports have a direct bearing on the distribution of our goods, and on our prices and wage scales; were exports so far diminished at this time that our surplus energy could not be let off in foreign trade, it is fair to assume that we would be using that energy in producing things exclusively for domestic markets, and it is fair to assume further that because of a consequent surplus, producers would be fighting for those markets. Were producers at the moment indulging in a battle of price cutting, there would be under way a campaign of wage cutting, and, in turn, a development of all those evils which come out of industrial, political and social readjustment.

Will Prices Advance or Fall?

HOWEVER, there is now under way no cutting of prices among producers in an effort on the part of each to get business away from the other fellow, nor is such a period apparently ahead. The influences which have already been enumerated as being opposed to any runaway boom may exert a restraining influence on any sharp upward swing, but in the last analysis the country's condition is one of real and undisguised economic strength. After all, absence of overproduction, stability of prices, and a condition of easy money are effective barometers of business; it will be recalled that the forced liquidation of 1920 began at a time when both price levels and bank loans were at a much higher level than they are today, and when the upward rush of business and the strained credit conditions bore sharp contrast to the conditions prevailing now.

To be sure, the average level of commodity prices, as measured by accepted index numbers, is at present above where it stood at the beginning of the year 1923, and is only a little below the peak of last year. Moreover, the total volume of bank loans throughout the United States, as already shown, is considerably greater than it was last January. A high scale of prices and an extensive use of credit at the beginning of 1924 are significant, even though they do not necessarily indicate a dangerous weakness in the situation. The fact that prices on the whole are shown by index numbers to be higher than a year ago, (and higher, with the exception of the four years from 1917 to 1921, than at any time in the present generation), gives pause to those who recognize the relation of high costs to business expansion. Also the fact that bank loans are above last year, (and in greater volume than ever before, with the exception of the period in 1919 and 1920, when credit was subject to extreme inflation), attracts the consideration of those who know the effect of credit conditions on business volume.

Stability on Present Plane

BUT with respect to both commodity prices and bank loans, it does not necessarily follow, because they are higher than in past years, that they are in peril of a severe deflation. The country's scale of costs and its dependence on credit have been adjusted to an all-around higher plane than before, and while comparisons with a decade ago show that prices have advanced roundly 50 per cent since 1914, while bank loans in the aggregate have nearly doubled, it must be recognized that a new normal of prices, as well as a greater field for the use of credit, now exist. It is impossible to indicate just what the new normal of prices is, or to show just how far credit is being devoted to its full and proper use. But there can be no mistaking the fact that there is an all-around higher plane of prices, credit and wages, on which the country is now operating.

Many speeches have been made and many articles have been written protesting against all this, without, however, changing the fact. There is much unevenness in both prices and wages; that is apparent to everybody. The new normals have not benefitted all alike, and many people have not benefitted at all. The farmers and great numbers of wage-earners have suffered keenly because of what has come about; their suffering has been a measure of the hardship that comes to certain people with every broad economic change. Still, the fact remains that the whole normal scale of prices is at a higher plane than before, and the further fact remains that wages generally, which enter so largely into establishing prices, are on a plane from which they will not readily be dislodged.

Strength of Economic Forces

ECONOMIC forces have played a part in broadening the use of credit, and in establishing prices and wages where they now rest, and those forces are at the present time operating to prevent any precipitate downward reaction. This does not mean that the present elevations are permanent, nor does it mean that specific commodities may not go lower at any nearby date. Adjustments are in process all the time, and inequalities are always being either created or corrected. The "human factor" naturally is bound to have its bearings on all that occurs, but so far as the entire price structure is concerned, there is no indication of a downward movement that would in any way be reminiscent of the disastrous collapse of 1920. With respect to credit, the current level of money rates and the strong reserve position of the banks offer adequate assurances there.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, February, 1924

THE American people's combined burden of taxes is now greater in the aggregate than ever before. A statement issued in January by the Census Bureau showed that the figures of last year's national taxes, added to the state and local taxes of 1922, resulted in aggregate payments in the United States of $7,433,081,000.

What this means is that there was collected from the American people for government purposes an average of more than $24,000,000 for each working day last year, as compared with one-third that sum in 1913. Out of every hundred dollars earned in business and by labor, $12 was applied for the payment of some kind of taxes. That compared with $4 similarly applied ten years ago. For every man, woman and child in the United States last year's average of tax payments was $68.37. For every family the average was $280, or about one dollar for each working day of the year. Inasmuch as the average family saved no more than that each day, it is seen that what was paid in taxes fully equalled, if it did not exceed, the total savings of the American people.

Movements for Tax Reduction

WITHOUT knowledge of the statistics as they applied to the whole country, but with a realization of the way in which they have come to be applied to the individual purse, the desire for release from the bondage of taxes on the part of the individual citizen has grown so great since Secretary Mellon in November announced his plan for a reduction of the federal collections, that the matter has become a paramount issue before the country.

Not only has the national Congress applied itself to a reduction of tax schedules, but states and local governments have sought means speedily to satisfy the public clamor. The Governor of New York has advocated an immediate cut of 25 per cent in the income taxes of this State, and governors and legislatures all over the country have acquired the fever to meet the popular demand. The budget estimate of Massachusetts for 1924 calls for a reduction in the state tax to the lowest of any year since 1916.

Pressure of Taxes on the People

THIS is the world's richest country, and the income of its people is great enough to enable them to pay, without supreme effort, a larger sum of taxes than any other people. At the same time there is a point beyond which even a prosperous people cannot go in supporting their government finances without endangering the structure of their prosperity, and that point has been brought into sight in the United States by the increased pace of public expenses to a yearly total of nearly $7,500,000,000. The federal government since 1920 has taken less of the people's income each year, both in the way of loans and taxes, but states and local communities have gone on borrowing vast sums, and have piled current expenses to such heights that in comparison with the taxes imposed on the public by the federal government, the State and local taxes last year showed an excess of more than a billion dollars.

The pressure of all this on the public income, and the sudden realization of the dangers involved, have changed the average easy-going citizen's plea for relief, uttered feebly and intermittently before, into a call so powerful in volume and so positive in its insistence that economies throughout the country are now bound to be made. "I never have known," said a United States Senator in an address a few days ago, "so widespread or insistent a demand from the people for any particular measure of legislation as is coming for a prompt and radical reduction in the tax burden." And he added, referring to the fact that he had answered 4,700 letters in six weeks, "I am sure that if there is one subject my stenographers never want to hear again, it is taxes."

Listening to the Public's Voice

THE subject, whether popular or not, is bound to occupy a large part of public interest in the coming weeks, although it remains to be seen how far retrenchments will go. That they will immediately carry appropriations all the way back to the rock-bottom of necessary expenditures is altogether too much to expect. It is not an easy task to force extensive government economies or to curtail a system of taxation so complex as ours, which takes more money indirectly from the individual's income than it takes at the source. And it must be remembered that, after all, the remedies are in the hands of government officials and elected representatives who move slowly, with their minds devoted not only to the greater good but also to the immediate effect of what they do on those whom they directly represent.

A politician's tenure of office is determined by his constituency, and experienced observers say that the politician does not indulge in extravagance with public money out of perversity, but has learned by long experience that economy usually wins him only perfunctory approval and costs him votes. Just now there is a resounding demand for a removal of the ball and chain of excessive taxation from those who are willing to work, but it will be only the continuing assurance that the community really wants retrenchment, and that economy means votes, that will lead the politician wholeheartedly to champion public retrenchment and economy.

This is something to consider; there is a difference in the popular attitude toward federal and local taxation which may make a difference in the degree of force that is exercised upon proposed reductions. The $3,204,000,000 paid in taxes to the national government last year was expended in a manner that brought no direct or apparent benefit to the individual citizen, save where an appropriation for a local improvement was secured, hence in the popular mind there is no question regarding how far in the knife of federal economy should go. On the other hand, the $4,288,000,000 paid in 1922 in state and local taxes, after bond interest and wages of public officials were taken care of, went with the proceeds of bond issues into schools, public buildings, highways, streets, water supplies, fire apparatus, parks, play grounds, social centers, stadiums, swimming pools, monuments and other visible improvements, all of which appealed to public pride. Though states and cities may be living beyond their means, individual citizens have reservations with respect to economies here, and those who are charged with effecting tax economies know those reservations.

Need for Severe Economy

SO it remains to be seen how far reductions ultimately will go, and how they will be secured. The necessity for severe economy is obvious, regardless of whims and tastes in the matter of local betterments, for until taxes assume a reasonable relationship to the country's income, and until progress is made in applying taxes more generously to a redemption of the $32,000,000,000 national, state, city and other public bonds that are now outstanding, the feeling of unrest and insecurity with respect to business will grow. Huge taxes and huge interest bearing public debts are a dead-weight drag on progress, and the expansion of existing business and the creation of new industries will gain their greatest impetus only as that drag is released.

So far as federal taxes are concerned, a good start has been made, and Congress is now engaged in the task of revising the rates which are to be paid in 1925 on the present year's income. A great stir is being made over the methods which have been proposed by the various political groups, although in reality attention is most closely confined to the plan proposed earlier in the winter by Secretary of the Treasury Mellon.

How Far Will Surtaxes be Reduced?

OF course, the feature of that plan over which there is chief discussion is that which proposes to reduce surtaxes on large incomes in such a way that no levy will be more than 25 per cent of the total. Because of this feature the plan in question has been widely assailed, and the bill designed to enact it into law is expected to have a difficult passage through Congress. Opposition to the bill is bitter, and one Senator states that it will be a thing of "shreds and patches" before it reaches the Senate. Other authorities in a position to judge have voiced a like opinion. Jealousy of legislative authority, Congressional vanity, political expediency—all these have their part in making the road hard for the move to modify the severity of the present surtax levies.

The Burden on Wealth and Poverty

AS was to be expected, the complaint has been common that the benefit of plutocrats and so-called Big Business is alone sought in the Mellon proposals for a sharp surtax reduction. Among the most common of human illusions is the one that the poor are always taxed beyond the point of justice, and that the rich are never taxed enough. In the present complex distribution of wealth it is only fair to say that no perfect or ideal system of taxation can be fixed; for that matter, nothing more than rough justice is ever to be attained in levies which call for large sums from the public for the Government purse. It may as well be admitted that there will always be inequalities in taxation, but it is too much to believe that those inequalities in a country governed like this, where the control of the ballot certainly is not in the hands of the rich, can ever deliberately and permanently relieve wealth by throwing the whole burden on the poor.

And even if legislation were so designed, it is difficult to see how it could effectively be put into practice. Wartime provided a test, and out of that came the law taxing not the poor most heavily, but the wealthy. The larger incomes were the most easy to reach, so that since 1916 taxes have been imposed in a ratio increasing as the amount of income increased. The present national income tax takes nothing directly from those whose yearly incomes are less than $1,000, and the middle classes pay on a scale which graduates very little up to an income of $6,000. From that point on taxes are imposed at an increasing ratio, until the surtaxes run beyond 25 per cent on net incomes of more than $58,000, and equal 50 per cent on all net incomes of $200,000 and more.

Levelling Wealth by Surtaxes

THUS by the system of surtaxes in the United States rich men have been made less rich, and many others have been made relatively more rich. The process has been one of levelling. Any discussion along these lines involves a consideration of the social as well as the economic aspects of taxation; without entering such a discussion it is interesting, however, to quote a paragraph from a recent Washington dispatch. It reads as follows:

> "This fight about taxes on big incomes really reaches beyond the field of taxation and enters the field of sociology. There is a definite group which regards the graduated income tax not as merely a device for raising revenue, but additionally and even primarily as a means of bringing about a social and economic levelling process. For good or for ill, that theory exists. The number is considerable who either favor it because they think it is popular politically, or else believe it is a theory of society."

From what has gone before, it will be seen that whatever discrimination there has been in our income tax laws, it has operated against those of large incomes. To the soap-box politician this is as it should be, and he would have it continue. To him, indeed, the designation "poor" still broadly classifies all those who labor with their hands, and he would have the income of labor relieved from taxes while the large incomes are heavily assessed. Such a policy would be undemocratic as well as unsound. Labor has gained a high place in the control of our industrial system, and by reason of this, and because of the share it commands of the common distribution of wealth, labor has obligations to our political and economic system in a degree greater than ever.

Labor as a class has fixed a high scale of wages and established a new social position for itself, so that its obligations—or lack of obligations—are no longer those of the poor. There was a time when labor was poor; when it was made up of society's unprivileged people, who lived in mean streets and comfortless houses, and who worked under indecent conditions. Labor is no longer unprivileged in this respect. There are those who still must do the unsavory tasks of life and carry on the hard toil, but wages, living conditions and educational standards are far different than in the past. The great number of new homes of the middle classes, the schools, churches, and auditoriums, the 15,300,000 motor vehicles and the 15,000 motion picture theatres registered in the United States: all these are evidences in point, and by their token alone the rank and file of the American people are shown to be able to bear their fair proportion in meeting the expense bills of government.

A Measure for the Common Good

THE great number of messages to Washington calling for surtax reductions from the rank and file show to what extent this is commonly recognized; also they show how far it is recognized that people in every grade of society have a very important economic interest in surtax reductions. It is coming to be increasingly recognized that no matter what degree of wealth one may possess, he contributes heavily to the surtaxes through the prices he must pay for his necessities of life. Although the elevated cost of living results from a multitude of factors in addition to taxation, surtaxes stand out prominently among those factors. Before such taxes are paid they must be earned, and they are earned only out of the prices charged in sales. In quite the same manner that the recent rule shortening a day's work to eight hours in the plants of the United States Steel Corporation has advanced the price of steel to the consumer by advancing the cost of the producer, the rule of high surtaxes has advanced the price of what people in general must have by advancing the cost of output.

To reduce the country's surtax rate drastically has been a plea of careful students of taxation for a long time, for higher rates have proved themselves unsound economically, even as revenue producers, and actually have defeated their purpose by curtailing business and raising the cost of living. They have driven men of affairs out of business and sent wealth into hiding. Capital has been discouraged so far that only one out of every 23,000 income-tax payers made returns on net incomes of more than $300,000 in 1921, the last year for which figures were completed, as compared with one out of every 337 in 1916. Last year only $150,000,000 of income was taxable under the highest brackets owned by those who received more than $350,000 a year, as compared with $950,000,000 similarly taxable in 1916.

Very naturally there is now a strong desire to wipe out the hiding place which wealth has found in tax-exempt securities. That is important, but after all it is not so important as the elimination of the motive which drives wealth to seek that hiding place. What is needed, first, is the establishment of a tax rate in the United States that will be not only just, but that will give an incentive to wealth to get back into productive business and remain there. For the country's future welfare there should be every inducement offered to return to productive service the energy that is now dissipated elsewhere. This can be done by permitting capital invested in tax-paying productive corporations to be at least as attractive to the business man as that which is invested in non-taxable unproductive securities.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, March, 1924

BUSINESS conditions in the United States are on the whole in a natural and healthy state, and the promise of trade is for continued activity for some time to come. A boom is not in prospect, and a speeding of activity to the furious pace of the middle of last year is improbable. From every present evidence producers, merchants and consumers have set themselves resolutely against speculative bidding up of prices, speculative over-accumulation of goods, and competitive bidding up of labor costs.

The prosperous condition of the country is demonstrated by the great number of freight cars loaded daily on the railroads, the large volume of steel output, the favorable reports of retail trade, and the rapid clearing of checks through the banks. The degree of prosperity is of course far from uniform. In the Northwest conditions are not so satisfactory as to support a forward sweep in trade movements; in the South the boll weevil and the shortage of labor due to negro migration are handicaps; in New England the high wage demands have curtailed both productive activity and purchasing power. But on the whole the situation throughout the country is favorable, and with price stability and a promise of continued active employment of labor, the situation is one that encourages confidence with respect to the outlook. Even from those sections where trade has lagged there come hopeful reports; in the Northwest seed merchants report good current business and the expectation of a busy season, while automobile sales there are already large in volume. The support extended by finance and industry in the eastern section of the country to the credit situation in the Northwest has already had a helpful effect.

With the approach of spring and the stirring of outdoor industrial and farm life optimism may be said to be seasonal, and is especially supported at this time by the abundance of credit resources, the absence of excessive inventories, the movement of security prices, and the profits and dividends of the large industrial corporations, added to the enormous purchasing power of the American people. For the longer outlook optimism is more restrained than for the immediate outlook. This is due to uncertainties that, while outside the scope of business, may yet have a direct bearing thereon. The measures to reduce taxation, the railroad situation, the market for grain, the personality of President Coolidge, the situation in Europe, the movements of the financial markets and the use of credit; these are the leading elements in the situation as we see them now. But in a little while affairs may be given a new complexion by the development of something that is as yet unforeseeable.

What May Be Looked for This Year

THE Presidential election is still eight months off, and much may happen in the intervening time. Looking back over the past eight months we see how many unforeseeable events occurred in that interval. There was the death of President Harding, followed by that of former President Wilson. There was the financial difficulty of the agricultural sections of the Northwest. There was the development of one of the most astounding political scandals in American history.

Oversea there was the climax of the adventure of France in the Ruhr, and the financial breakdown of Germany. There was the election of a labor premier in Great Britain and the recognition by the British government of bolshevist Russia. There was the visitation of Japan by a disastrous earthquake.

There are many developments of the present year still unforeseen. Finance, industry, agriculture, commerce and politics are all subject to important and far-reaching changes, and prediction regarding developments in any of these fields in 1924 is not to be made with any such thing as absolute confidence. Even with respect to taxes it cannot now be said whether the sound method for reductions proposed by Secretary Mellon will prevail, or whether Congress, absorbed in politics, will seek to force upon the country reductions that will be wholly uneconomic and unsound.

Outlook of the Money Market

AMONG the most assuring factors in the current situation is the condition of the money market. With business moving at a healthy pace credit is available in sufficient supply for every legitimate business need. Credit accommodations are large, and there is an absence of the frozen loans that characterized our credit structure a few years ago. Not only are banks individually in an excellent position in most parts of the country, but the Federal Reserve System shows remarkable strength. Borrowings of member banks from the System are really small, the total being less than $500,000,000, as compared with nearly $3,000,000,000 at the high point a few years ago. Recently the circulation of Federal Reserve notes declined to the lowest total since the middle of 1918, while gold resources rose to the highest figure ever reported.

It is an interesting reflection of the strength of the situation that notwithstanding the volume of the bank loans outstanding, and in spite of the capacity of the banks to extend loans further, care is being exercised lest over-expansion in business be encouraged by a too-liberal extension of credit. As measured by the volume of banking accommodation now in use, American business today is calling for two dollars of credit for every dollar called for ten years ago. Bank loans have doubled in a decade. But because of the tremendous addition to gold reserves, and because of the development of the Federal Reserve System, the loaning capacity of the banks has increased much more than two-fold, so that the comment is heard that we have in the United States a foundation for a thirty-story credit building and have on it a four-story structure.

Will Money Rates Rise or Fall?

ANALYSIS shows how wide is the margin between the lending capacity of the Federal Reserve Banks and their present ratio of loans to reserves. According to the most recently published statement, the total gold holdings of the Reserve System are more than $3,125,000,000. There is also a very large amount of gold held in individual banks and carried in the pockets of people, principally in the form of gold certificates. Adding all of the country's monetary gold together, upward of $4,000,000,000 gold is available to broaden and multiply the power of the Federal Reserve assets.

It will be readily seen from this that the banks are not utilizing all the credit which they could extend. At the same time, however, it is not to be concluded that an active competition among banks to make loans, or an era of lower money rates, is in sight.

There has lately been discussion regarding a reduction in discount rates, but while it is true that we have a tremendous reservoir of credit, it is also true that it is being carefully administered, and that no changes will occur save after the most thoughtful study of all that is involved. It is now more than a year since the Federal Reserve's discount rate has been changed; it was advanced from 4 to 4½ in February, 1923, at a time when industry was expanding at a pace that caused those in charge of the country's credit structure some concern. The desire at the time was to check the very apparent tendency toward over-expansion in business and toward credit inflation; the result was altogether satisfactory, as may be judged by the business and banking record of last year.

That any reduction is necessary at the present time to stimulate business is a view that can hardly be maintained. All proper business requirements are being met without stint; there is no shortage of credit; rates are at a level which is not burdensome to legitimate business. Lower rates might tend to over-stimulation and unwarranted expansion. To be sure, there is much credit power in the gold now contained within the United States. It can support a vast expansion. But after all we are not assured of a permanent possession of all the gold we now possess, and should conditions presently lead to a flow toward Europe, any credit built up on the present inordinate balances might have to be curtailed.

And apart entirely from the insecurity of our gold balances, it must be recognized that cheap money, making easy an expansion of business along untried and hazardous lines, is something the country ought not to be brought to face. The observation is pertinent at this time that the prevailing rate of interest in the money market for temporary employment of floating resources has a very direct relation to the rate of interest commanded by capital which is employed in permanent investments. The rate at which short-time credit is employed depends admittedly on the activity of trade and on whether prices are rising or falling. But in the long run the rate of interest commanded by capital helps to determine the rate commanded by short-time credit, hence an additional factor calculated to offset any sharp easing in money rates at this time is found in the flotation of security issues and in the rate which those issues command in the market.

Decline of Franc and Its Meaning

EUROPE'S problems have recently again been brought forcibly to American attention. Before the action of the French government last month, leading to a 20 per cent. rise in taxes, the franc declined in the exchange market to nearly 4 cents. That value compared with an average last year of 6.1 cents and with an average in 1922 of 8.2 cents. At the opening of January the value was 5 cents. Mere recital of these figures indicates how rapidly the franc has dipped downward in seeking its lowest level for all time. The decline has been an eloquent expression of what is going on in Europe, especially with respect to the fiscal conditions and prospects of France.

The consequence there has been to disturb public confidence, increase living expenses to five-fold those of a decade ago, hinder government finance and interrupt the import of raw materials. By cheapening the currency and making it readily possible for outside countries to buy French products, the franc's fall has rapidly stimulated the demand for export products, quite in the same manner as occurred in Germany when the mark was collapsing. Also it has made the franc subject to speculation, although not in a degree like that which occurred in the ruble, krone and mark of other years. French importers have sought to convert their cash into sterling and dollars, so that they might feel safer with respect to the purchasing power of their money, and French exporters, so far as possible, have left their collections in banks abroad for the same reason.

While undoubtedly powerful speculators have been at work seeking to drive down the franc, as has been widely charged, those speculators have done little more than accentuate a decline that found deeper reasons than simply speculation. The movement has been based on certain features in French public finance that had their origin not only in enormous reconstruction outlays, but in expenses, military and otherwise, which the government thought fit to make beyond the revenues derived from taxes. All these have made it impossible for France to balance its budget. The government made huge expenditures in the devastated regions and expected to pay for them out of the money received from Germany in reparations. The rebuilding of the destroyed section of France may be considered an asset, but up to now the expenditures for reconstruction and war pensions have exceeded 120,000,000,000 francs, and since Germany has contributed little to this amount, the French government has been compelled to finance the expenditures quite as it has had to finance its army and railroad subsidies where expenses exceeded the receipts of taxes, namely, through huge issues of Treasury obligations.

The Way Out for France

FRANCE is entitled to the sympathy of the world for the burden that has been saddled upon its shoulders, whatever the criticism that may be offered regarding the means taken to finance the burden. France did not follow the vicious practice of Germany and issue untold quantities of paper money, but at the same time it did fail to finance its greatest expense by taxes, and resorted inordinately to the use of its credit and to the issue of loans. Thus the reconstruction of the devastated regions has been paid largely out of the savings of the French people. The patriotic and thrifty peasants and *rentiers* bought government issues so freely that since the close of the war the national debt of France has approximately doubled, the total running to more than 400 billion francs.

The Treasury has now ceased to term its reconstruction expenditures as "recoverable," and future expenditures of this nature, though they may be charged against Germany, are to be met as far as possible out of taxes gathered from the French people, rather than by loans which pile up the obligation of the Government. The shock registered by the collapse of the franc in the world's markets, it will be seen, has had a salutary effect upon those directing the finances of France. They have seen that for the solvency of their country only two measures are possible; increased taxes and economy. That they have courageously met the issue by voting to curtail expenses and add one-fifth to the country's taxes is evidence that in France there is a clear recognition of one error of other years, which led Russia, Austria and Germany into the bewildering chaos of paper money inflation.

Clearing Away the Misunderstandings

RECOGNITION of the errors of other years has not yet gone far enough to clear away every misunderstanding in Europe, and set it to working out a practical and mutually effective means of reconstruction. Business and politics have not yet met on common ground. People abroad need a chance to work and produce wealth, and to give them that chance credit in vast amounts is essential. So far as public finance at present is concerned, we see the weakness of Russia and Germany as measured by currency quotations so low that millions of rubles and billions of marks are required to equal our smallest currency denomination, the American cent. The currencies of even the strongest of the continental countries that were engaged in the war, France and Italy, are now quoted at a fifth of their gold parity.

Movements of the exchange markets show how far from being restored are confidence and credit alike, and how remote from a satisfactory settlement are the questions in Europe of labor, production, trade, loans, reparations, budgets, and by no means least, fears, envies and grudges. Profound discouragement has laid hold of a number of the countries on the continent that were defeated in the war, while so far as the others are concerned the fruits of victory are tinctured and sour, and to quote Ramsay MacDonald, England's new prime minister "nations that were Allies glare across at each other in only semi-concealed hostility." Tolerance, vision and economic statesmanship are needed to restore Europe.

Hence the interest that is felt in the activities of the international body of experts who have had turned over to them by Europe's politicians, temporarily at least, the task of determining Europe's destiny.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, April, 1924

SO many factors now have a bearing on the course of finance and trade that it is only a rash prophet who will make a positive prediction regarding the business future. Some of the factors are of a kind which are always expected at this season of the year; others are contrary to the ordinary procedure, and though they have not shaken the business structure to any pronounced degree, they have served so far to confuse the forces which control trade activity that business leaders have become cautious in making commitments, while the average business man is puzzled as to how far he may expect to go during coming months, in pursuing his affairs along usual and normal lines.

With respect to the actual volume of business, it can hardly be said that up to now this has been altered materially. The financial and trade response to recent events has rather found its reflection in sentiment with respect to the future. That current general business—meaning production, distribution and consumption of goods throughout the country—is being conducted on broad and active lines is testified by current trade reports. Spring trade is well up to, if not past, the volume of other years.

The Measure of Current Business

THE output of factories, the employment of labor, the purchasing power of current wages, the volume of bank clearings and the amount of railroad traffic all give continuing evidence of the pace at which production and distribution is maintained. The reports on freight car loadings are especially significant; they continue week after week to show totals running far beyond those of the corresponding period in any previous year, and much of the movement of miscellaneous freight and merchandise is in less than carload lots, a fair index that goods are moving rapidly into final consumption. Even at the height of last autumn's freight traffic, when in addition to everything else the movement of the newly harvested crops was in full swing, the strain on railroad facilities was not very much greater than it is now.

What Supports Country's Prosperity

THE country's industrial activity and the strength of the current trade situation indicate a gratifying scale of national prosperity, and were it not for uncertainty as to tax legislation, bonus proposals, political disclosures, the agricultural situation and the international exchanges, a bright picture could be painted for the year 1924. It is these cross-currents, however, that prompt a feeling of business hesitancy, and that place emphasis on short-term dealings.

True, trade movements recently have served to heighten the contrast between the exceptional output in certain industries and the depression in others. Textiles lines especially suffer by the contrast, cotton mills showing curtailment. According to reports from New England, excessive wages for labor, coupled with unsettled raw material prices, have brought about a cost of staple goods which consumers for the moment will not pay, the result being a light demand, sharp competition among mills, and, broadly speaking, a disappearance of profits.

To a marked degree the prosperity which the country is enjoying is based on two industries—automobile manufacturing and general construction work. The direct employment of labor in these particular lines is shown to run into hundreds of thousands of men, while the indirect employment, through the need for iron, steel, rubber, leather, lumber, cement, paint and other basic products, is even greater. Scarcely a business is found which is not influenced in some measure by the activity in the automobile and building industries; still, every business does not show a uniform scale of prosperity, and in the unevenness of the situation, as well as in the uncertainty regarding national and international affairs, is found a source of restraint on confidence, and a reason for the check that is exercised against any movement toward speculative expansion.

Forces That Check Optimism

IN determining the year's progress, then, it is safe to say that the responsibility will rest, for the present at least, with the consuming demand of the American people more than with forward buying. Demand for current consumption may in turn be expected to respond very directly to popular sentiment, as that is affected by the success, or the lack of success, which is gained in disposing of the problems that now check the country's affairs. A prompt disposal of the legislative quarrel over the income tax, and an agreement on schedules that would properly distribute the burden of government costs, would exert a most helpful influence. Those who pay excessive surtaxes and are thereby penalized for everything they do have less assurance now of adequate relief than they had when Congress convened.

The proposal last fall by the Secretary of the Treasury for constructive and sensible fiscal legislation, though at the time it met with spontaneous and hearty endorsement on the part of the country's taxpayers, has become at the hands of Congress, as seasoned political observers predicted for it, a thing of shreds and patches. Nor can anyone foretell the outcome of the movement to release business from its tax bondage; the lower house of Congress has passed one bill and the Senate during the coming month will debate another. Congress is expected to adjourn in June, and with no knowledge as to when and how a definite tax agreement will finally be reached, business in general has lost that part of its buoyancy which was occasioned by the original proposals of tax relief.

By a decisive vote of 355 to 54 the lower house of Congress last month passed a bonus bill, estimated by its proponents to show a gross cost to the nation of $2,000,000,000. The statistician of the American Legion figured its costs at $3,300,000,000, while other experts named amounts as high as $4,800,000,000. Adoption of this bill adds another political factor to those which have already shown themselves to have a bearing on the country's business future. An attitude has been consistently maintained by many people throughout the discussion of proposed raids on the Treasury that even an adoption by both houses would not insure final passage of a bonus bill over the President's veto. The experience of 1922 is recalled to support this view. Changed circumstances make the outcome uncertain, but whatever the outcome, the effect of bonus discussion has already added to the extent to which politics has become a deterrent on confidence. The year 1924 is a "Presidential year," and the implication of that term is now more seriously regarded than before the present amazing political situation developed in Washington. The economic bearing of the recent so-called disclosures is found in the shock to public confidence, and in the danger that men whose services have already been of immense help to the country and on whom business now relies for sound leadership and guidance may possibly be forced out of public life, to be replaced by much less able or by dangerously radical ones.

Politics and Their Evil Effect

THOUGH the investigations that are in progress, together with the charges of official corruption, do not directly affect the deeper fundamental problems which in the long run determine the national destiny, the effect of these investigations and charges cannot be overlooked in any consideration of current business movements.

Fortunately there are signs, as the days go on, of a return of cool judgment to the American people, while sober second-thought, that saving grace of intelligent people, is something that presently ought to dispel the doubts which have been cast upon the administration of the government by floods of testimony given by witnesses who not only were found in high places but who were gathered wherever they could be found.

There is throughout the country a wholesome insistence upon honesty in public office, but it is not possible that ignorance, prejudice and self-interest, when they go too far and cloak themselves as a desire for public good, charging corruption in every direction, can indefinitely mislead a whole people. For a time one might almost have suspected from the newspaper headlines that there were no longer any good and efficient men in public life, but the inaccuracy of such a picture is coming to be seen. Great numbers of those who make up the government have a devotion to their work that is determined solely by an unselfish ideal of service, and certainly one or two, or even half a dozen, venal men cannot for any length of time be considered typical of those leaders in the national capital and elsewhere who have made distinct personal sacrifices to serve the country.

Coordination for Future Progress

ONE thing becomes more clear as time goes on; if the country is to continue to flourish the period before it must be one of strong leadership and coordination in business and finance, as well as in politics, with the object that loose and scattered ends may be bound up for a firm and definite procedure. Because certain national responsibilities appear in most eyes to overshadow those which are international, there is an inclination to brush aside any consideration of what are termed foreign affairs, yet the country's financial stake in those affairs makes the need as emphatic as ever that a coherent program with respect to them be established.

In the long run, it must be clear that no problem which now confronts the country is purely local or purely American. The local aspect supplies only a part of the picture, inasmuch as the United States has become part and parcel of the whole fabric of international affairs. The peace of Europe; the funding of its debts; the stabilizing of its battered currencies; the rebuilding of its trade; the restoration of international exchange: all these have so direct a relation with respect to the affairs of the American manufacturer, farmer, exporter and importer, that every local problem goes hand in hand with every problem of foreign origin.

Problems of Home and Foreign Origin

LABOR and the scale of wages cannot be considered apart from immigration, and immigration in turn is linked with foreign policy. Foreign policy is related to oversea trade and that in turn touches on our agricultural problems, on our railroads, on tariffs, on the repayment of foreign debts, on taxation. The recovery of the franc and its bearing on French solvency, and the significance of the forthcoming commission report on Germany's ability to meet reparation payments—these alike have their meaning in terms of future American prosperity, just as so many other foreign developments have already had. Reconstruction and peace abroad, leading to a stabilizing of trade and an opening of the channels of credit, mean much to American industry and agriculture; hence the necessity for a lively interest in the steps that are taken, and for a consideration of credit and trade extension, when the time and circumstances are right.

Low Money Rates: What They Mean

ATTENTION has been attracted to the domestic credit situation by the downward trend of money rates. Wall Street call loans on stock exchange collateral were quoted before the end of March at the lowest figures since the close of the war. Loans for two or three months, similarly secured, were made at rates that were below the average of every year since 1916, while loans secured by the highest grade mercantile paper fixed a similar low record, if a portion of 1922 is excepted. This downward movement was coincident with an addition to the available supply of banking credit. For the most part the banks throughout the country are individually in a strong position, while the Federal Reserve system shows a reserve that is close to the highest percentage reported in the past eight years.

The theory is very naturally being advanced by many people that while the country is prosperous everything should be done to have it grow more prosperous, if that is possible, and so these people are holding to a belief that the way to speed general prosperity would be to have credit more abundant, more accessible, and more cheap. Those who know the cause and effect of redundant money find it difficult to combat the public fallacy regarding an abundance of credit, especially as periods of inflation in the past, with an abundance of credit, are remembered by the public as periods of "prosperity." It will readily be recalled how in 1920 the popular approval of inflation was of all the economic heresies the greatest to combat, and memory is still keen of the popular outcry that arose against the measures which were finally enforced to check that inflation.

Desire to cheapen money is constant; the banker and the political economist may argue that continuing low rates have an evil effect, yet from the rank and file of people there is bound always to be approval of any suggestion that the banks make it more easy for borrowers to negotiate loans. Judging by concrete personal example, the average citizen infers that the greater the volume of credit released by the banks, the greater the benefit to all. The invariable personal experience is that the more money one has the more prosperous one is, and the average citizen therefore concludes from his own experience that the more money there is in the country, and the more credit there is, the richer everybody for that reason must be.

Hence, in every consideration of the money situation, what the banker needs to oppose is the view that abundance of credit alone means prosperity, and he needs further to oppose any unnatural movement that will cheapen money too much and make it easy for borrowers to venture along untried and hazardous lines. Reginald McKenna, Chairman of the Midland Bank of London, wrote recently:

> "One may tell you to increase the money supply indefinitely and keep trade booming. But if you do, prices will soar indefinitely. You will first suffer innumerable social evils, and finally the extreme depreciation of your currency will gravely impair your power to trade."

Need for Caution and Restraint

HUMAN nature being what it is, men are tempted to branch out when funds are made readily available to them at low cost. They are tempted to overextend and take on new lines, moving from the business they understand into enterprises that appear alluring but are beyond their experience. That kind of expansion, bred of overconfidence and supported by easy credit, develops the most dangerous of commercial diseases, and though there are those who say that business men do not venture into new enterprises just because money is cheap, experience has too often shown just that kind of expansion.

At the moment caution and restraint on business confidence are outstanding features of the business situation, so the danger of inflation cannot be said to be an immediate one. Legitimate business would not now be stimulated by cheaper money, for that already finds money cheap enough. Still, with rates for credit accommodations low, what prevents an increased demand for loans at present is a universally cautious state of mind. Given continuing low money rates and continuing business activity throughout the country, a change toward optimism and a cheerful turn in the state of mind would be only a matter of time, and that, in turn, would presently bring about a situation necessitating banking judgment and restraint, to offset the lure which overconfidence and easy credit invariably have on certain types of borrowers.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

MAY 6 1924

New York, May, 1924

AT a time like this, when a great deal is being said and written concerning the things that hamper our national prosperity, it is easy to fall into the mood of those who picture the country as moving in the direction of financial and industrial depression. Justification for the mood is sought in the recital of those influences which are considered unfavorable at this time: political perplexities; danger that tax reductions may fail; bonus legislation; declining commodity prices; dulness in certain staple industries; fear of what is termed "trade saturation"; further sharp adjustments in the farming communities.

Events and tendencies at the present time do not all, however, point in the same direction. Set over against the influences registered above is the unmistakable fact that business in general goes on at a sustained rate, with full industrial production, large profits, and no substantial piling up of inventories. Automobile manufacturing, building construction and the output of railroad equipment, which in particular have contributed so greatly to support the recent business activity, continue to move forward. The banking situation is sound, credit for every legitimate need being obtainable at fair rates.

Good Effect of Dawes Report

IN addition, affairs abroad have taken a better turn; cooperation of London, Paris and Berlin in the matter of the reparations appears to have been brought nearer than before by the accomplishment of the Dawes committee. We hear now, also, that Europe as a whole is on the upgrade; that the forces which make for war are growing weaker, and that the forces which make for peace are growing stronger. Experienced observers, returning from abroad, say that as compared with as recently as last summer, the European state of mind, upon which economic and political recovery depends, has noticeably improved. The areas of peace have extended, the areas of war, or threatened war, have diminished.

What Is the Business Prospect?

TAKING current events and tendencies, and arraying them all together, one finds that they point in conflicting directions, so that the problem of the business man has come to be one of matching opposite influences one against another, with the purpose of determining which ultimately will dominate his affairs. In the mood of the moment the favorable domestic influences are more than offset in the public mind, and the consequence is an undercurrent of business caution which reflects itself in restrained forward buying, in slowly receding commodity prices, and in unsettled security markets. There is talk, furthermore, that certain of the basic and large industries, which have been very active to date, have now reached a point where curtailment looms as a necessary measure unless production is to outrun consuming demand.

After all, is this to be wondered at? Not even the most cheerful optimist could ever have imagined that business would proceed indefinitely and without a break in a long, continuous, forward sweep. More money has been spent for building construction; automobiles and related things over the past three years than in the preceding ten years, hence there can be no surprise at the prevalence of views regarding the possible approach of saturation and downward adjustments. Wholly apart from the political disturbances and the other destructive elements that have manifested themselves in our domestic situation, recessions from time to time are only to be expected in a period when domestic trade is proceeding at a pace seldom equalled.

Growth of Our Business Volume

FOR nearly three years American business, in addition to supplying the current wants of 110,000,000 people at home and many others oversea, has been engaged in making up deficits resulting from the war and the later depression. There is now no way of determining exactly how far the past deficits have been made up, or how far contemporary requirements will go.

How enormously American business has expanded is measured by a recent estimate which names upward of $70,000,000,000 as the total wealth output of the United States last year. That signifies a rate of nearly $6,000,000,000 a month, or $200,000,000 a day. The figure is only an estimate, and may be higher than warranted; moreover, we are constantly warned that a figure is never so deceptive as when it involves a measurement in money, the value of which, relatively to commodities, greatly changes from time to time.

Nevertheless, such an estimate, taken for what it is worth, and following estimates which named upward of $65,000,000,000 for the income of 1922 and $60,000,000,000 for 1921, gives some conception of the return yielded to industry and ingenuity in their development of American resources during last year. It gives also a conception of the returns now being yielded.

Applying Brakes at High Speed

INDUSTRY and trade are indeed bowling rapidly forward when production yields wealth like that given above. By very token of their speed, industry and trade are subject to adjustments, and it is only to be expected that such adjustments, in accordance with fundamental economic conditions, and in accordance with consuming demands, should constantly be under way. Brakes occasionally need to be applied when a body is moving at high speed.

This does not necessarily signify an imminence of changes that will provide a lasting interruption to the country's growth. On the whole, through constantly rising living standards, the American people have been geared up to an enormous consumptive habit. Their buying power has been repeatedly an astonishment to expert observers and a despair of the pessimists, and is greater now than ever before. But though that buying power is all that is said of it, it might be diverted from present channels. Unbalanced production might result, some particular industries getting out of step, so to speak, and overdoing their part.

Possibility of Overexpansion

HOWEVER, with respect to immediate prospects, a high rate of production seems still to be ahead, the only difficulty being that whatever recessions occur must be left to markets which are subject to extreme moods and which may jolt industries into changes that should come gradually. To what extent our industries are subject to such a jolt will rest in considerable measure upon how far we are still removed from a dangerous position through unwise industrial expansion. Since the depression of 1920-'21 events have made it clear that the war led to a larger addition in our farm acreage than peace time could immediately and profitably support. As for our industrial capacity, neither the war boom nor post-war boom, so far as can be determined at the moment, stimulated that unduly, save in a few special instances. Absence of an abundant labor supply was one reason for this, common business sense was another.

At one period it was thought that the war expansion of our industrial plants had brought about a technical situation in which manufacturing capacity was developed to a point from which there would be little need for promotion work for a long time to come. Experience proved the fallacy of this. Building construction has been carried on at a rate limited only by the restrictions imposed by labor. Industries in general have expanded, so that productive capacity has gone to new records. We continue to look to foreign markets to absorb surplus output, but find that on the whole our enlarged productive capacity in recent years has no more than kept pace with current needs.

Whether the ambitious extensions of the recent past have given us a surplus capacity, as compared with normal needs, remains to be seen. That will be seen when we enter a period of normal buying. For the moment all that can be said is that there is no evidence at hand to prove our productive capacity unwieldy, unless it becomes unbalanced.

So that the sustaining quality of even a smaller buying power than that now seen is something to be counted on in the months to come—always with the reservation, of course, that extreme moods and the contagion of pessimism do not jolt changes that should come gradually.

Are We Living Beyond Our Means?

REFERENCE is frequently made, when views are expressed on the business outlook, to the living standards of the American people. Danger is seen in the scale to which we have attained, and statements are occasionally ventured that we have advanced our standards so rapidly that sooner or later they have got to fall because, economically, they cannot be sustained. We have come to live on our capital, according to these statements; extravagance in both government and private life has overtaken our savings, and we are living beyond our means.

Statements like these are easily made, and by many people are firmly believed. Government expenses at $7,500,000,000 a year are enormous, and the incidence of taxation proves a weighty burden on business. Private spending at the same time makes the American family a source of perpetual wonder throughout the world. Not a few foreigners believe that in this country are rivers of money. The high pace and cost of our modern life engage the vivid interest of all kinds of people, and the social, moral and economic effects, present and to come, are dwelt upon at length from the pulpit, platform and press.

Social and moral effects are not to be gauged statistically, but with reference to economic effects, one outstanding statistical fact at least determines the judgment of the immediate situation. It is this: our wealth accumulation, representing excess of production over consumption, is growing at a rate seldom if ever equalled before. Last year alone, despite all offsets, the net addition to our national wealth, through saving and through investment in durable goods, established a peace-time record. If we accept figures recently compiled by Professor David Friday, the total of our savings was some $12,000,000,000.

The Real Extent of Our Savings

NO nation ever before showed anything like this addition to wealth in a period of twelve months. Going back only a third of a century to 1890, we find that our total wealth output was in that year no greater than our accumulation of last year. England before the war added about $2,000,000,000 to its national wealth annually through saving. Germany added a similar amount. Italy and France together saved less than either England or Germany. Even then the United States was adding more to its national wealth than these four nations combined. Today, with Europe still seeking to overcome its war ravages, we stand out as the single great accumulator of capital in the world.

Again it is important to recall the deceptiveness of figures that involve the measurement of money, especially when comparisons are made with periods of different price sales. But the sheer bulk of a $12,000,000,000 estimate supplies its own logic. Savings, it might be explained, are not just the sums of money people put into banks. In the usual economic formula cash alone does not represent savings; those things do represent savings which are produced and not immediately consumed, but added to the national equipment.

A new house; an extension to a barn; a motor truck; a new road—these increase national wealth and are savings. They may be paid for out of people's pockets, out of the money deposited in banks, out of the premiums collected by insurance companies, out of building and loan funds, out of mortgages or out of bond and stock issues. According to Professor Friday, a full $5,000,000,000 of the excess of our national production over consumption—savings—went last year into automobiles, trucks, roads, garages and additions to the equipment of automobile factories. Another $4,000,000,000 was absorbed in building activities. A total of $2,500,000,000 went into railroad additions, power plants and public utilities. Various other items absorbed an additional $1,000,000,000.

The Outlook for the Future

OUR savings were in enviable volume; the question remains, how wisely were they spent? For automobiles and trucks alone, $3,300,000,000 was spent by the American people last year. That sum was three times greater than the year's addition to savings bank deposits, and twice as great as the total of life insurance premiums. How much of this was wise investment? How much was extravagance and waste?

There always will remain for dispute the question of where the line runs that separates savings and waste. Nobody can determine this arbitrarily. What is called saving is often waste, and what is called waste is often the soundest kind of economy. Individual circumstances invariably govern, and the matter after all is a question of ideals and judgment. Begging the question, it remains that a nation which can produce new wealth in such abundance that it averages a monthly surplus of a billion dollars is in an enviable position, particularly in this stage of the world's affairs. With an acceptance of figures like these, it is easy to believe the volume of our savings to be, in reality, one of the most significant and outstanding phenomena of our industrial process.

Also it is easy to believe that, with our high standard of living, it properly measures our industrial life and typifies our economic accomplishments. So, then, whatever may be one's views of the spiritual cost of the present so-called jazz phase of our modern life, the rate of our capital accumulation must change or at least modify a great many notions that have been built around the material cost of our obvious extravagance and waste. Belief has for some time been common that the distribution of a large part of the national income to the laborer, together with high taxes, has militated against capital accumulation. Great numbers of working people have indeed, like the government, used their enlarged income unwisely. But the notion that this has ended capital accumulation is, by the figures quoted, wholly disproved.

Time will show how far the accumulation has been wisely invested—whether, indeed, it has all represented true saving, or whether, in the spirit of the times, much of it went where it will do no permanent good. For the present, all that anyone can say is, wait and see. Wealth assuredly has been and is being produced in an abundance never dreamed of by the builders of as recently as a generation ago—Carnegie, Hill, and the elder Morgan could not have pictured for 1924 what we see today. Great sums are constantly becoming available for the promotion of industry or for the expansion of the national equipment, and with American ability, equipment, energy, ingenuity and ambition supplying the motive power, there would seem to be ahead a continuance of development and growth.

What is required is wise guidance, and if extravagance in private life and in our government are replaced by sane and properly directed spending, the future is secure. The country has demonstrated that its resources can be counted on to produce in large quantities those things which are needed to maintain the mass of American people in a high degree of comfort and prosperity, but even those resources cannot develop indefinitely unless they are guarded against unwarranted excesses.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, June, 1924.

THERE is under way a perceptible slowing down in the country's trade activity, and, more than anything else, the business community is seeking to learn whether this is a passing phase, or whether it is due to fundamental economic conditions that are unsound. Both labor employment and manufacturing activity show a declining scale, and the evidences of a downward trend are more general than at any time before during the year. The steel industry is operating at less than two-thirds of its full capacity, while in coal, rubber, leather, copper, railroad equipment and textiles, trade manifests varying degrees of lessened activity.

The reaction to date has been orderly and without any of the widespread distress which accompanied the drastic adjustment of 1921. As a matter of fact, the country is still doing a heavy total volume of business, with distribution and consumption of goods, although less than a year ago, of greater magnitude than in most other years, and with supplies in merchants' hands comparatively light.

For the most part, the customary dangers of a trade reaction have not manifested themselves, and only in a few directions has ground been lost sufficiently to suggest actual weakness. Speaking of the moment, no special alarm is felt in those industries where production and prices had heretofore been held in check, while, on the whole, the recessions have not been looked upon simply as a misfortune, especially as they appear already to have brought certain industries, which were intensely stimulated, back into a better balance with the whole business structure. Thus there is in prospect a more orderly distribution of raw materials to those industries which formerly had to compete under difficulties for the products they consumed. Also there is in prospect a period wherein the different industries may take their bearings, to determine just where they stand in relation to one another.

Much depends, so far as both the immediate and the longer future of our national prosperity is concerned, on the forces that are responsible for the current decline in business volume. The presidential election, which is only five months off, and the discouragement of the spirit of enterprise because of Congress, are most often mentioned when reasons are sought for the decline. But other reasons are also frequently mentioned, and in making the distinction between them, those who look beneath the surface for underlying indications are inclined to give these more than momentary attention.

Question of Major or Minor Reaction

IF, as so many people believe, the downward turn finds its primary cause in politics, it may quite readily be determined that the current movement is of minor importance, to be followed presently by an upward swing and by renewed prosperity. If, on the other hand, the downward turn finds its cause in weak and unsound economic conditions, it may just as readily be determined that what is under way is a major movement of business adjustment, in which basic changes may compel a continuing reaction, until trade activity and prices are alike on a scale in keeping with altered conditions. Although trade reaction has not gone far enough to justify serious apprehension, the question of underlying reasons begins now to take on importance.

Briefly, then, what is there in the current situation to imply a possible unfavorable major variation in the country's trade? For one thing, there is the altered buying power of the farm communities. For another, there is the country's improperly balanced scale of industrial activity, already alluded to, with undue dependence on automobile manufacturing and building construction. Then there is the excessive scale of wages, insisted upon by labor in return for limited hours of work. There is the nation's annual burden of more than seven billion dollars of taxes. Still again, there is the lack of stability in our relations with foreign markets.

Reason for Helpful View of Prospect

REASONS like these, and others that are collateral to them, have undoubtedly had a part in turning the business community conservative, making it tread warily in its forward commitments. At the same time one is impelled to believe, for the moment at least, that the current decline in business is of minor rather than major significance, and that fear of underlying dangers is not destined to carry business immediately into a region of sharp curtailment.

Fundamental conditions, in so far as they give cause for concern, are after all not greatly altered from last fall and winter, when trade generally was in very large proportions. Indeed, where changes have occurred at all, one finds that they have marked an improvement. A more hopeful condition is reported in the agricultural states. A more conservative policy has come to govern the output of automobiles. Building construction in many states has emerged from its speculative phase. Taxes, in face of all kinds of political obstructions and despite the bonus, are in the way of being lightened. Progress has been made in the easing of Europe's difficulties.

So that if basic weaknesses in the situation were recognized last winter and given their full value then, the downward change in trade which has since occurred cannot be attributed logically to a movement of progress away from those weaknesses, but is to be attributed to a hesitant state of mind among the American people. Buying power in this country is large, but psychology plays an important part in both the upward and downward swings of business. It is in the state of the people's mind that we find an important reason for conditions as we have them today. Ever since Congress convened in December, one discouraging development after another gradually weakened confidence in the nearby political and business prospect, and this has had its inevitable consequence.

Some of the Favorable Omens

APPROACHING adjournment of Congress should therefore have a helpful effect on the state of the common mind. Mass feeling throughout the country having been affected by misgivings over harmful legislation, at least a surcease from that kind of legislation should have a beneficial effect, offsetting in some measure the restraint that will be exercised by the politics of the presidential campaign. This is at least worth mentioning at the present time, when business, in seeking to find its proper level, is matching favorable and unfavorable influences one against another.

Favorable influences are by no means lacking; it is especially worthy of comment at this time that the money situation is not to be counted among the unfavorable influences. On many occasions in the past business expansion has ended in collapse because the strain on credit resources became so great that it could not be endured; the reaction of 1920 and 1921 was accompanied by a forced loan contraction at the banks. But recent experience has been quite the opposite of that earlier period. Business expansion did not result last year in tightening money markets, nor does the present reaction find its cause in any such influence. On the contrary, loans for every legitimate purpose are now obtainable at rates below the average of a number of years, and there is every assurance that for the months before us, unless something unforeseen occurs, money market ease will continue.

FINANCIAL AND BUSINESS REVIEW AND OUTLOOK

Signs of Promise in Europe

WITH respect to favorable influences, out of all the cross-currents and perplexities of the present year, what appears to have had the most heartening effect on people generally, abroad and here as well, has been the Dawes Report. Time and study have confirmed the early observations, made on publication of that report, that it offers Europe a rational policy of economic advance. The report was built up on the lessons of the years that have elapsed since the close of the war, and embodies proposals which, having already been accepted by the nations in principle, show that the world has moved a long way toward a common point of view in the problem of post-war finance.

The weakness of Europe having sprung from a lack of confidence and good-will, the most important problem of the world, namely, the economic rehabilitation of those countries that suffered most bitterly from the war, is being overcome as Europe progresses toward a satisfactory correction of that weakness. What every nation has stood primarily in need of since the close of the war has been political stability, social sanity and financial integrity, so that most encouraging now is the growing realization that attempts to bring about credit settlements without good will, and political settlements which do not accommodate themselves to fundamental business laws, are futile.

Sound Principles of Dawes Report

ENGLAND appreciated the situation first, and now the other countries have come to see that progress can only come when life is made bearable for *all* the people of Europe, and when working conditions return that will reinspire all. The whole episode of the formation, the work and the report of the Dawes Commission has provided notable evidence of a changed international state of mind; the activities of the Commission were made possible only because experience had proved that Europe's reconstruction is a matter of common concern, to be forwarded only by common action, and not in a spirit of independent compulsion.

Even though it is modified and altered in its various details, in order that its application may the more readily meet the wishes or needs of different nations, the principles laid down in the report of that Commission have more than justified its preparation. The statement of those principles, and their acceptance by the nations, brings Europe's differences down to solid ground, and at least opens the way for a gradual movement to a normal status. The merit of the report lies primarily in its adherence to well-tried economic doctrines, and in its restatement of them in connection with the recognition of Germany's obligation to pay reparations to the limit of its capacity.

Of course, it must be kept in mind that the application of any plan is still to be effected; in the meantime, delay holds back revival. The plan of the experts is still a theory; unsettlement is a fact. Currencies and prices abroad are still unstabilized. Debts remain unadjusted. Old gold moorings are far from being regained. Artificial trade barriers continue to separate raw materials from industrial areas and industrial areas from their markets. Production and transportation are not organized. The uncertainty of many foreign political organizations operates as before. Moreover, there is much heart-searching and bitterness among those who still feel that the fruits of victory which should have come to them out of the war have been snatched away by the mysterious and unjust working of economic laws. People learn slowly those things which they do not like to learn, but Europe's experience since 1919 has been a stern teacher, and there is good reason to believe that Europe is at the dawning of a new epoch.

How Far Germany Can Make Payments

PROGRESS will not come over-night; it will be a considerable time before one can even determine whether the methods of reparation payments, as now outlined, can succeed. There is much wonder expressed that the experts did not fix the total sum that Germany must pay. Having determined that reparations are due, they failed to announce *how much* those reparations must be. The omission, however unsatisfactory it may seem, is a recognition of the uncertainty that veils every phase of Europe's future, for in the light of conditions, no definite sum can possibly be fixed as to how much Germany *must* pay until it is determined in the first place how much Germany *can* pay, and in the second place how much the Allies *are able to receive*.

This problem of *how much* will in all likelihood trip the reparation creditors for a long time to come. The experts responsible for the Dawes report recognized this; they very ably laid out a plan for meeting the problem of Germany's solvency and for producing a paper mark surplus *within* the country, but in determining the matter of transferring that surplus to foreign countries, in funds acceptable to those countries, they were carefully restrained.

Applying Export Credits to Indemnity

TO have a clear understanding of the difficulties involved, one must know that the problem of reparation payments is in the long run a problem not of politics but foreign exchange. Germany cannot transfer its factories or its railroads bodily to its creditors, its supply of gold is too small to pay even a fraction of the indemnity, and its paper money is unacceptable. Hence the only means by which the nation can satisfy the reparation demands is by building up an enormous surplus of exports over imports, so that the resulting credit can provide balances against which bills of exchange may be drawn to settle the obligations, in sterling, francs or other appropriate currencies.

Reparation payments have been fixed on a sliding scale, subject to addition or reduction in certain contingencies. To make the expected payments effectively, Germany must reverse its familiar position in foreign trade, and become a nation that exports far more goods than it imports. By its nature, Germany has up to now been an importer of materials more than an exporter. In the five years before the war, 1909-1914, years of Germany's greatest prosperity, the average annual imports were $504,000,000, against average exports of $420,000,000. In the first three months of the present year alone, the German foreign trade deficit amounted to $157,000,000.

The World's Stand on Reparations

WHETHER Germany can so far develop and adjust its industries as to become a great export nation remains to be seen. Also it remains to be seen whether other countries care to have Germany assume the role of so great an export nation as suggested by the above figures. As for that, the attitude of the various countries may be judged from the measures they have already taken to establish themselves in the export markets, at the same time that they have sought to prevent themselves from being inundated with cheap German products which might prove the ruin of their own manufacturers and merchants.

The world's stand on the reparations has been picturesquely described like this: "We believe Germany should be forced to pay; if we find that she can, by jingo we won't let her." The plan of the experts provides that in case German funds cannot be transferred without disorganizing the exchanges, they are to be held within Germany and invested there until a maximum of 5 billion marks is thus accumulated. Thereafter further payments are to cease until they can be transferred through the medium of an export surplus. In other words, it is provided that reparation payments will be made if German international trade conditions make payments possible, and not otherwise.

The situation, as may very well be judged, is one that is full of interesting possibilities, but at least one of its most baffling complexities is now removed. Reparations have been taken out of the realm of sentiment and feeling, and are now in the realm of economic common sense. That greatly simplifies the ultimate solution.

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OF THE CITY OF NEW YORK

New York, July, 1924.

POLITICS continues to have its day in governing the nation's economic affairs. It has exercised a very definite influence on business for a number of months, and promises to go on doing so for months to come. Congress, it is true, has adjourned, and law-making that resulted in so much pessimism during the last session is suspended. But now, with the outcome of the two great conventions occupying an important place in the public mind, and with the prospect in view of a four months' period during which the national consciousness will be stirred by the Presidential campaign, it is too much to expect that business will at any time before November be wholly free, either for good or ill, from the influence of politics.

Whether the campaign is waged in a way that will impose a restraint on initiative, or whether industry will move forward in confident assurance and without alarm, remains to be seen. The experience in Presidential years like 1876, 1884, 1896 and 1900 was unfortunate to business; on the other hand, in all four of the last campaigns, going back to 1908, industry moved forwards despite uncertainty regarding legislative conditions.

Business, Politics and Finance

AS a general principle, a nation-wide election provides its own problems, and the business and financial mind traditionally dislikes a change from the known to the unknown. In the present year, though, it is quite possible that business and finance may choose to forget traditions, and instead of experiencing fear of a change, may hope devoutly for a Congress that has higher principles than the last, counting upon this as its greatest opportunity with respect to the future. Business men in general cannot be expected to feel grave apprehension of a change when, on looking over the record of government, they find that apart from the courageous service of the incumbent of the White House, small help was given industry from Washington during the past year. Counting upon sound and constructive legislation, the nation came at last to regard the government with apprehension, for activities throughout the session of Congress were toward the enactment of bills that violated nearly every sound economic doctrine. Legislation, especially that pertaining to the spending of the people's money, showed many minds to have an altogether wrong conception of the ultimate effect of what they were doing. Business uncertainty this year owed much to the evils of politics.

The Subject of Greatest Interest

SIMPLY the possibility of a series of changes in Congress, then, away from men whose efforts caused so much uneasiness, is not likely to lead to ominous financial reactions. What concern there is will be regarding the principles of those who are to be the nation's lawmakers. Fortunately, neither of the great parties has adopted a platform calculated on this occasion to frighten the timid-minded; the issues of the campaign do not involve, as in other years,

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the ripping up of the tariff, the upsetting of the currency, or the prosecution of Big Business. Recent movements of security markets show an absence of apprehension over the convention platforms. At the same time that this is true, the business man does not overlook the lessons of the last Congress, nor does he fail to recognize the implications of the drift to class legislation, or the determined purpose on the part of so many of those who seek power, through third and fourth party agitation and otherwise, to change the operation of the government from its true function to something entirely different. Memory is keen of the passage of the bonus law, the efforts to enact the Bursum and the McNary-Haugen bills, and the emasculation of the Mellon tax proposals, while with respect to the future, account is taken of the political demagoguery which is seeking success through the promise of a ruthless sweeping away, by legislation, of all the country's misfortunes.

Economic Problems and Lawmakers

THIS is the first national campaign in which post-war psychology will have occasion to express itself; moreover, it is one in which social and economic ailments will be thoroughly aired by those who believe it possible to correct the present order by way of the shortcut of new laws. England, France and Germany, at elections in the recent past, placed new political forces—"radical" so-called—in power, because of dissatisfaction with the existing social and economic order. England's labor government has been able and successful, and as much is to be hoped for the new governments on the continent. Our conditions are not like those of Europe, however, nor is our radicalism of the same type.

To be out of sympathy with the extremists does not mean, of course, that one advocates that the nation shall sit back complacently, as one that has no ailments which need correcting. The United States has ailments, and they are serious; where there is a difference in views at this time, it is regarding the methods to pursue in their correction. Favored by good fortune, this country has progressed very far in a material sense during the post-war period, but in spite of its forward sweep, there are issues for settlement which comprise the outcome of the war disorder and the subsequent readjustment.

These deal directly with industry, labor, the farmer, taxation, foreign trade, the tariff, immigration, and the fact that we have become so overwhelmingly a creditor instead of a debtor nation. Solvent and self-sufficient as the country has shown itself to be, it is still unstable in the larger matter of determining these problems and establishing a fixed purpose.

What so many people fail to see, however, is that the problems in question are essentially economic, and what they will not understand is that their determination will in the long run be advanced by the guidance of other forces than politics. Economic laws and self-enforcing natural laws have been supplying correctives for many of our ills since 1920, and, left alone, will continue to do so. But this is an election year, and men seeking office—especially men of the stamp of the last Congress—do not admit that remedies are to be found in the working of economic and natural laws, save as those laws are amended by their own legislative policies for the nation's welfare. It is the detriment of such views, if they are widely supported, that is calculated to unsettle business and check initiative during the coming campaign. Further, it is the detriment of such views that, carried far enough, would demoralize the country.

Business Volume and Sentiment

AS for the actual movement of business to date, with reference to political restraint, all that can be said at the moment is that the security markets have up to now shown no alarm, while evidences are found of a somewhat less depressed tone in general trade. As for the financial markets, their attitude toward the campaign henceforward, all things considered, will depend on the course of business itself between now and November 4. The markets will be concerned if business is depressed; they will rise cheerfully if business moves forward on a sound basis. It will be recalled that even in 1912, when the Taft-Roosevelt quarrel split the party in power and assured both a Democratic victory and a reversal of the country's tariff and fiscal policies, sentiment was confident and security prices rose in reflection of a vigorous trade improvement that went on through that year.

Naturally enough, the years when the country has been upset by a Presidential conflict have been years when it was already disturbed by other causes, so now it remains for the markets to appraise the influences which, with politics, bear on the financial future. These are both bad and good. The unfavorable influences have in recent months had the greater effect on sentiment, and, supported by Congress, have produced a decided business setback. Nevertheless, the favorable influences have by no means lost their power, and with respect to the course of trade, it is quite possible—always provided politics does not intervene—that they may presently bring about a condition wherein unsatisfactory trends are replaced by improvement.

Present Basis of Output and Demand

WE are now in the summer season, when the normal trade trend is downward; still, there are signs that reactionary movements have slackened. Production in most lines has been adjusted to the smaller demands, and prices on the whole are slightly more stable after an important measure of liquidation. The point may therefore be in sight at which the recent drastic readjustment will have restored the balance of supply and demand.

Buying lately, though it has been from hand to mouth, and though its character has given reason for much concern, has in special instances been surprisingly good; moreover, it must be kept in mind, with respect to the immediate outlook, that the reserve buying power of the American people is probably greater than at any previous time. Basic production is much below the peak of this year and last, and is at the lowest point since the summer of 1922. This means that consumption in many lines, even at the present restricted point, must be outrunning output.

Extreme movements bring their own correctives, and it is reasonable to believe that the rapid shrinkage in output in some materials has made supplies subnormal to such an extent that an upward turn in the output of those materials cannot be long delayed. Supplies in the hands of retailers and jobbers are far from being as unwieldy as they were in the setback of 1920-21, and there is little of the distress selling which marked the deflation of that time. Most manufacturers, operating under the restraint of falling prices and limited sales, have sharply curtailed their output and inventories to the needs of the moment. Certainly this is true in such a basic industry as steel, where the country's output, with prices at the lowest average of three years, is down to less than half of capacity.

Labor's Place in Deflation

IT goes without saying, in considering good and bad influences, that the factor of wage levels has become of more importance than before in determining the trend of business. Demand for goods has declined in many trades, and prices have fallen. But wages have resisted the decline, so there are now many inequalities which need correction. The law of supply and demand has come into effect, and in some localities unemployment has made its appearance, altering the labor situation from the time when the need for brawn and skill of workmen greatly exceeded the supply. But labor in general is not yet working at less than scheduled rates rather than not at all, and there is a stubborn resistance against downward adjustments, the thought of labor being to get all it possibly can out of the common production of wealth, leaving the sacrifices to others.

High wage scales in this country were a notable effect of the war and post-war inflation; they became established in a period of rapidly increasing wealth, extravagant desire, and rising prices. We have passed through that period, and deflation has lowered many standards. It remains now to be demonstrated how far industry can operate under a condition wherein wage scales will not yield, and wherein payrolls absorb an undue proportion of industry's income dollar.

What Are the Favorable Signs?

TO give a thought to the favorable influences of the current situation, they include these; underlying trade conditions are sound; there is a large reserve buying power throughout the country; foreign conditions are improving; the available supply of banking credit is the most satisfactory in years. Though not all that had been hoped for, tax reductions are an accomplished fact, and the country is partly relieved of one of its oppressive and unnecessary burdens.

A rise has occurred in the price of wheat to the highest level in more than a year, and corn has advanced to its highest level since 1920. The country's farm crops, from every present indication, will average much below normal this year; the outlook for the wheat crop is the smallest in seven years.

It is admitted that this will sharply reduce the farmer's purchasing power. At the same time, it will go a long way toward correcting the fundamental trouble in wheat, which has been overproduction. A short crop of dear wheat may bring no large sum of money into the farmer's pocket, but the human mind is so constituted that higher prices will go a long way to relieving his irritation and bettering his state of mind. Caught between low prices for the things he sold and high prices for what he bought, the farmer has for more than three years been in an unenviable position, and that position, in some measure at least, will be corrected as the price pendulum swings back.

Money Rates at Lower Levels

BECAUSE of its favorable implication, it may be mentioned that there is no current fervor of speculation either in commodities or securities; there has been an emphatic rise in bond values, but that has been a response to money market movements rather than to speculative instincts. No analysis includes the banking situation in the list of causes for current business depression. Available credit supplies—thanks to enormous gold reserves—are greater in volume than at any time before. Looking back over the past three years, we find that in this brief time nearly one-fifth of the entire world's supply of gold has been added to our store.

Money rates are lower, in nearly every section of the country, than at this time a year ago. Commercial loans have been made in New York at the lowest rates since 1917, and it may fairly be said that, in contrast with the elevations reached at the height of the inflation period of 1920, money is now the country's cheapest commodity.

Cheapening banking facilities have been so far overborne by discouraging factors that they have not encouraged business initiative, but this does not remove the money market from the realm of business interest. There is an essentially altered condition in our credit relationships; still, the money market is a matter of importance in considering the business future, and in the long run is bound to assert an influence, because of the enormous power that is here represented for the encouragement of expansion.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, August, 1924.

WE have become accustomed, since the war, to say that the world has entered a "new era"; in government and business this expression is used daily. Certainly, so far as the banking relations of the United States are concerned, we are in an era that no one a few years ago had the vision to predict. It is not only that our credit system has expanded and come nearer to technical perfection; exercise of our command over the world's gold supply has been a large force in this direction.

During the war, and afterward, the outside world bought such enormous quantities of American goods that it went heavily into debt to us, and our consequent financial power has come to be one of the most remarkable phenomena of history. As for one visible effect, we find, looking back over a little more than three years, that in this brief period nearly one-fifth of the entire world's supply of gold has been added to our store. On January 1, 1921, the monetary gold stock of the United States was $2,784,000,000. On August 1, 1924, on the basis of figures prepared by the Treasury Department, the total is $4,500,000,000. Thus, over a period of forty-three months, the addition to our gold supply has averaged forty million dollars monthly.

The consequence of this steady accumulation has been to increase the country's total so far that the gold within its borders is now equivalent to half of the world's monetary supply of the metal. In other words, all the countries of the world together have no more gold than is now possessed within the United States, and their supply is so thinly scattered that practically all of them, having departed from the gold standard ten years ago, have failed to return to it.

With so much gold drawn to our shores from the old-world nations, the American people have felt, in a national sense, a large measure of pride in the mounting strength given by its ownership. It is very often heard that America has at last placed itself securely on the world's financial throne. Imported gold, together with the other forces at our command that were developed by the war, has indeed enlarged our control in international economic affairs. But there is another side to the picture. The gold that has poured in upon us has unbalanced the world's credit organism. It has built up a surplus here that holds a possible menace for us, while it has created a shortage elsewhere that holds serious possibilities for others.

The Meaning of Gold Reserves

TO many people the statement may sound very strange that a surplus gold reserve holds a possible menace for us. They have been taught that gold is wealth, and that its possession represents power. Their study of history has shown them that those nations which had the most gold have always proven financially the strongest. Their recollection of 1920 is that America's industrial expansion was turned into deflation then because the absence of a gold surplus forbade further credit extensions. Therefore they may find it hard to understand why, at the height of

America's strength, warnings should now be offered concerning an abundance of gold.

The truth of the matter is that the gold which we imported has poured in upon us so fast that it has given us an excessive banking strength; a strength far beyond our immediate domestic needs. We now have the power to support a credit expansion that is far greater than any banking system ever boasted. An excess of credit is a temptation to expansion, and expansion that is not controlled leads to inflation.

Effects of Too Much Credit

CREDIT ease has its dangers just the same as credit strain, and the danger that is before us—though it is by no means an immediate one—lies in the possibility of gold inflation. With every addition to the country's gold, when the metal finds its way into the banking reserves, the country's credit structure is increased. Gold seeks occupation wherever it is lodged, so that now a problem that is faced is how to direct the flow of credit made available by this gold, making it at the same time productive, liquid and secure.

Too much available credit in the United States finds its opposite in not enough available credit abroad; our unwieldy accumulation has helped to drain foreign nations of financial responsibility, impair their solvency, and injure their ability to pay what they owe in the markets of the world. Even though it has sent us much of its gold, and shipped large quantities of goods here, Europe is tremendously in our debt, and even now, six years after the close of the war, Great Britain alone, among the large nations, is paying interest on that part of the interallied debt for which it is obligated. The other debtor nations are not undertaking remittances either for interest or principal; indeed, were they to do that, and were all the European promises to pay that are now considered to have a doubtful character to become good, the effect would be to widen further the gold stream flowing into this country.

Looking ahead, then, this nation has, in the matter of its credit relations, a three-fold problem; first, how to utilize the gold it now possesses, without having it disrupt its finance and business; second, how to free itself from that part of the gold it does not require nor wish to keep; and third, how to equalize the gold flow in order that the world's exchanges may again become normal. All this sounds like a lesson in abstract economics, of a kind that college instructors like to give their students. But the problems involved, confusing and strange as they are, go much deeper, and have a far more direct bearing on our future national prosperity, than mere abstract lessons. They are related to every phase of our business life, and vitally affect the relations of our agriculture, industry, trade and finance, and on their solution will rest in large measure the position that is occupied by the United States in time to come.

If we go on draining the outside world of gold, and if our financial power continues to manifest itself in the piling up of metal reserves, fundamental changes must occur in our business relations, both national and international. Each nation in Europe, it is true, carries on its internal commerce without gold, and has done so for ten years. Paper supplies the mediums of exchange and the tokens of credit. But paper of fluctuating or doubtful value fails to provide adequate means for settling the balances of international trade, and the flow of that trade is seriously checked. If it were possible to find something equally acceptable with gold as an international medium of exchange, this condition would soon be altered. But gold continues to be the single universally accepted medium by which nations balance their credit and commercial transactions, and it is clear that in foreign trade at least, this metal is the ultimate medium that is looked for to rectify the balances between particular countries.

Importance of Foreign Stability

SOUND conditions in international trade will not be possible, then, until some satisfactory means have been found of settling trade balances; hence the question must be faced which seeks to learn the arrangements that may be made for Europe's payment for American goods which it will desire to buy, and which we will want to sell, in time to come. Without satisfactory answer to that question, there is before us the prospect of a decline in our exports below imports. Indeed, our newly won position of creditor country seems to involve the necessity of a radical change in the balance of trade, turning our traditional export surplus into an import surplus. With the mechanism of international exchange dislocated, and with the currencies of those countries most in need swung farthest away from the point at which they normally might command gold, the problem at the moment is none other than a baffling one. There is no apparent impending major turn of the gold tide away from our ports, and no way has yet been devised of either naturally or artificially turning that tide.

Where the Solution Lies

SO far as freeing the nation from a part of the surplus gold is concerned, numerous solutions have been offered; none, however, has yet been sufficiently practical to adopt on any large scale. There has been the suggestion that further gold imports be forbidden; that a part of what we now have be locked away and "entombed"; that renewed efforts be made to force gold more than before into hand-to-hand circulation. Objections to these suggestions present themselves at once. There is another suggestion that this gold be made a basis for external credits and loans, and that it be used to assist in a general return to the gold standard. It is this last suggestion that offers the widest and most interesting possibilities, and it is along the lines of foreign loans that future financing on a large scale would seem inevitable.

The outcome of the London conference that is now going on will influence in an impressive measure the American attitude toward such financing. Following the German gold loan project proposed by the Dawes Committee, we may look in the course of time for important developments along the lines of other credits and loans. American banks are extending their discount facilities to foreign bills on an enlarging scale, and the dollar is more and more finding a place as a medium of international exchange. As European countries indicate that the process of financial regeneration is really begun, confidence will assert itself in the form of loans.

Cheap Money and Inflation

IN the meantime, there is still confronted the means of utilizing the surplus gold while it remains with us. For the moment that problem would seem to be taking care of itself; much of this gold is not being utilized. Money rates have declined to the lowest level of a number of years, and credit is more readily available to sound business ventures than for a long time past, yet business curtailment is under way, and instead of credit expansion, the banks are experiencing a period in which loans have fallen below their record figures of the past. The changed aspect of the portfolio of the Federal Reserve banks is one striking evidence of what has come about. At the apex of the boom of 1920, when there was far less gold in their vaults than is there today, the total amount of bills held by the twelve regional Reserve Banks was in excess of $3,000,000,000; now the corresponding total is $300,000,000, or 10 per cent of the record total.

Of course, in the last analysis, banking reserves and money rates do not alone determine prosperity. Men do not borrow just because money is cheap. As a force affecting business, the large available credit supply takes its place at the moment beside the conditions in agriculture, labor, politics, industrial production and foreign trade, and there is so much uncertainty in these conditions, that it will take more than cheap money to make business exuberant in the coming weeks. The grain markets have advanced rapidly for some weeks past, but there are still serious inequalities between the prices of agricultural products and industrial goods. Wage costs are high, with no immediate prospect of reduction. The Presidential campaign is swinging into a stride that is having its effect on business confidence. We have an unbalanced industrial equipment, with over-development in a number of directions. Foreign trade expansion, on broad and healthful lines, is still awaited. All these things hold business back. After all, though, the effects of cheap money are not to be judged solely by the events of the moment; the test will come when the restraints mentioned above are relieved, when business men are inclined again to undertake new enterprises, and when speculation is fanned into new confidence. It is to that time, in view of our enormous gold reserves, that forward-looking bankers are now directing their thoughts.

Interest Payments on Bank Accounts

SO long as bankers are constrained by current events to exercise caution in extending their loans, the administering of the country's banks will be ruled with conservatism. So far as the banks themselves are concerned, this will have one good effect if it eliminates an evil that has developed among many of them in recent years. Competition among commercial banks in every part of the country has grown increasingly, and for a number of years, to enlarge their business, they have offered their services to the public on a constantly widening scale. This has operated for the public's welfare, and it has resulted favorably to the banks themselves. The broadening of their facilities has led customers to entrust them more and more with their affairs.

Competition among banks, when on a sound basis, has had an excellent effect, but there is at least one form of competition that has proved unhealthy. This began to show itself some time ago when, in many localities, banks seeking to swell the volume of their deposits offered the public the inducement of liberal interest rates on current checking accounts. Some banks, because of the pressure of competition, are now known to be paying interest at 4 per cent and even more on deposits subject to check.

The position of commercial and savings banks in the matter of interest payments is wholly different. Savings banks need carry no large cash reserves; their funds are not subject to payment on demand; and they can place their funds in long-term investments and mortgages, the interest rates of which do not fluctuate. Commercial banks, on the other hand, must keep their funds readily liquid, and necessarily are governed in their operation by money market conditions and money market rates. The measure of their income is found in rates current on their loans, and those rates, as already pointed out, are now at the lowest level of a number of years.

No business can be permanently successful that is too costly. Banks cannot pay out more than they earn, and at the same time succeed. It is the history of bank failures in the United States that not a few disasters of the past found their reason in the pressure exerted by high operating costs, and the need to earn revenue sufficient to meet those costs. Where business judgment was sacrificed for rapid growth—in other words, where banks paid higher rates of interest on deposits than they were warranted in doing—they in turn sought loans that also carried a high rate of interest. Unwarranted risks were taken, and instead of conservatism, there was bred a spirit to "take a chance" because of the larger amount of income that could thus be earned.

With the situation in the money market what it is, it is timely to give thought to the particular competition which of late has led so many banks beyond reasonable limits in the payment of interest on current accounts. All banks have not been at fault in this matter. Many have exercised judgment and restraint, choosing to grow by merit rather than through buying accounts. But more than a sufficient number of them, because of their desire either to gain business or to retain business against the assaults of their competitors, have brought themselves into an uncomfortable situation. The services rendered by banks to the public are in general much more costly than before, and the margin of profit has narrowed constantly. When, in addition to costly services, high rates of interest are paid on deposit accounts, the burden is too heavy by far.

After all, the careful customer's first thought in considering his banking relations is that of safety. The rate of interest earned by a checking account should be a secondary consideration. Banks which have placed themselves on a competitive basis so far as actually to go out and buy accounts have given a false idea of what is best in banking relations—an idea that, in view of the money market ease, needs now to be seriously amended.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, September, 1924.

BUSINESS sentiment lately has undergone a distinct reversal; optimism has become widespread and has encouraged the expectation of a swelling trade volume during the autumn months. This change has come in rather sudden sequence to a period which up to a little while ago bore all the marks of hesitation and depression. It has not yet shown concrete results in enlarging the output of basic commodities very far beyond the low levels of midsummer, or in relieving unemployment among the larger industrial communities. But it has manifested itself notably in a rapid upward movement in the various financial markets, with active speculation in stocks, grain and some of the important commodities. Also it has manifested itself in a series of confident statements from observers whose views on the outlook have been colored by lively hopes as much as by tangible facts.

Volume of business is not greatly enlarged over the summer months, and employment is below this time last year. But this does not mean that tangible facts fail to support a certain degree of optimism. Indeed, the improvement that has occurred in western conditions, due to grain prices, is in itself a substantial basis for cheer. Instead of showing itself in the grip of a severe depression, with prices down to pre-war levels and with little prospect of relieving a heavy weight of old indebtedness, the grain belt has given much cause for cheerful comment. In addition to that, there is the partial lifting of the restraint of politics; apprehension regarding the economic effect of the Presidential campaign is not as pronounced as it was in June or July. Less than ten weeks remain before election, but the manner in which the two major parties have defined their purposes, and the knowledge that good harvest returns have a way of swinging electoral votes toward conservative candidates, have made it appear that business and finance may be spared from spasms of fright between now and November.

European Peace and Cheap Money

FACTS in the current situation are unmistakably favorable; certainly the tangible fact of the accord that has finally been reached in the difficult matter of Germany's reparations means that a long step has been taken toward financial reform and economic recovery abroad—a step that cannot be regarded in any other manner than with utmost satisfaction. Then, further, there is that extraordinary underlying consideration, the overflowing credit in the American market. A superfluous yet constantly growing supply of gold, an abundance of bank reserves, and a level of money rates that is the lowest of recent times, combine to contribute a powerful element of strength to the current situation. To carry further the conjunction of favorable facts, there is the domestic industrial situation, which has gained a condition of health through the restraint that has been exercised in the output of such commodities as iron, steel, copper, coal and textiles. Instead of piling up stocks of unsold goods, industry has been running at low speed, and its recession has made new supplies, especially those in dealers' hands, fall behind consumption.

True, a number of industries which normally are large consumers of basic products do not give promise at the moment of greatly increased buying demand, and their failure to return immediately to their former peak of activity is certain to disappoint the lively hopes of the most buoyant business observers. Building activity, automobile production and demands for railroad equipment and supplies are not likely during the remainder of the present year to show marked expansion. The reason is that their expansion of the past was overdone. But offsetting this, in a measure, will be the normal autumn development in other directions, to be stimulated, in a degree as yet unknown, by the unloosening of the agricultural west's purse-strings.

The Basis For Cheerful Sentiment

TO sum up: a return of health to the western farming community; a setting-back of politics to second place as a business influence; a long step completed toward real peace in Europe; a situation of unparalleled domestic credit ease; an undersupply of factory products; these are concrete things which speak for themselves, and which plainly are designed to improve business sentiment during the remainder of the year. The prospect, then, is at least for a natural rebound from the recent underproduction, while at most it is for a rapid expansion in those lines of business where the west's buying will concentrate, and in those other lines where opportunities for profit are made possible by the present low interest rates and by the constructive developments in Europe.

Cheerful opinion looks for improvement to appear quickly. Conservative opinion looks for improvement, but looks for it to come slowly, with employment and output increasing as orders appear. The reversal of certain underlying trends, it must be remembered, has not wholly altered the entire situation. There still are to be taken into account as business factors the surplus productive capacity in certain of our industries, the extremely high wage scales, the burden of taxes, the attitude of many of our politicians to enterprise, and the credit and trade instability abroad, which in spite of steps for betterment still blocks a part of our trade outlet. These stand in the way of a forward sweep. It is possible, of course, that the upturn in business will develop into a period of real inflation, abundant credit overbalancing the restraining conditions. But this is a subject that will not show itself as one of real importance for some time yet.

There are those who profess to see gold inflation already. They see this in the credit that has been made available to borrowers in a volume exceeding the current requirements of commerce and industry, and in the credit that has found its use in the purchase of bonds and stocks and in the stimulation of speculation in grain and other markets. So far as actual business credits are concerned, however, low borrowing costs are at the moment operating only as a single influence in the situation, supplementing others rather than making themselves the determining cause of expansion. It still holds that borrowers are not negotiating loans for any large increase of their business simply because money is cheap. Whether they will begin to do that presently, leading the country into a period of inflation, rests with circumstances which are still obscure.

Opening of a New World Era

FORWARD looking observers profess to see the beginning of a new era in our financial and commercial life; that beginning being marked by the lowering of money rates here coincident with the steps taken abroad for a settlement of the European turmoil. We have overflowing credit resources; these can be used in immensely increased investment in home industries, as has already been pointed out, or they can be used in part in making advances abroad. Unless all signs fail, we shall presently see our huge gold holdings made available for world commercial credits. In other words, advances are in prospect not only to domestic borrowers but to borrowers oversea, in amounts that may have a fundamental influence on American finance and industry.

Because of the cheapness of American credit there is a widespread impression that a great outpouring of our financial resources to other countries would be of advantage not only to them but ourselves as well. So far as our swollen reserves of gold are concerned, it would be vastly to our benefit were that portion of the gold which was drained from Europe during the past five years to return thither, or at least to support the extension of foreign loans. With respect to the transfer of private investment capital, however, as represented by the individual savings of American people, it is too soon to look for an unrestricted movement into foreign issues, save where particular safeguards are provided.

American investors are devoting themselves to the question what to buy, and the yields on foreign issues are no doubt an attraction that will command notice on the part of prospective buyers as time goes on. However, there still is room for profitable investment at home; for that matter were one to make a careful analysis, it probably would be revealed that the apparent abundance of capital in the United States is deceptive, while so far as the abundance of credit is concerned, that lies not so much in the resources of the individual commercial banks as in the abnormal gold resources of the Federal Reserve system.

A Calm View of the Outlook

IN any event, little will be gained by rushing into a situation that is still far from clear, and that is subject to many possible changes. Individuals who lost money speculating in German marks are showing fresh interest again in Germany, possibly in the hope of recovering what they have lost. But beyond the formal German government loan which is to be negotiated here, wisdom will prompt great care in the placing of large sums at the disposal of outside borrowers. With short-term advances, made in the form of secured banking credit, the situation will be tested out properly; also a better balance will thus be given to the international financial structure. American finance will be justified in enlarging its foreign activities for the benefit of commercial business only as definite direction is given foreign affairs.

What we see now, in the agreement on the Dawes Plan, is the financial guidance and help of the strongest nations of the world uniting to rehabilitate their former common enemy. These nations appear to be agreed at last that the world's business and commerce as a whole can thrive only as they find the way to unity—first of all economic unity. It is an extremely interesting economic experiment upon which this nation, with those of Europe, is about to launch. It is one in which Germany, in order that it may be enabled to export large quantities of goods for reparation payments, is to be financed extensively by nations which are themselves large exporters, and with whom, to be successful in its enterprise, Germany will have to compete in the markets of the world. The United States is expanded industrially and agriculturally beyond its own domestic requirements, and needs to sell its surplus products in outside markets. Europe has always been, and presumably always will be, the chief market for goods of American output. Yet nearly every large state of Europe is now in debt to this country, and contemplates the ultimate settlement of its debt by the export of its goods. We, as time goes on, will seek to export to them while they, to pay their debts, will seek to export to us.

The United States counts upon continuing as the world's greatest export nation on balance, and counts at the same time upon being the world's greatest creditor nation. Here is apparent inconsistency which no other trading nation has yet found a way to reconcile satisfactorily. Other creditor nations have always shown a balance of imports, those imports settling the balances due on financial account. Already the American people, privately and through government loans, are a European creditor to the extent of upward of $17,000,000,000, and before long, unless all present signs fail, that amount will be increased.

Will Germany Buy Heavily of Us?

WHAT the long-run outcome of all this will be is beyond any individual's present ability to say. For the moment interest in this general question is overshadowed by the interest in a particular question which concerns the immediate effect on American prosperity of what is about to take place. There is an impression that every product of American shops and fields is needed in Germany, and that as credit and security for their purchase are provided, a wave of buying will be seen. There is another impression that Germany, with the markets of the world open to her, and confronting the need to provide funds to settle the reparations demands, will seek urgently and at low prices to sell its goods abroad. These are two sides of a question that is bound to become increasingly important in coming months. One side favors intensified activity in the United States, the other looks toward an unfavorable effect on our industry.

So far as our early export opportunities are concerned, there would appear to be no question that insofar as credits are provided by this country, the American exporter will benefit from those credits. Germany's chief need, however, is not for manufactured goods but for raw stuffs. Its labor, equipment and machinery, together with all its adjuncts as an industrial nation, make it seek to send out manufactured goods rather than bring them in. Moreover, German representatives in the United States have made it clear that so far as commercial credits secured here are concerned, they will be sought chiefly to buy goods that can be re-exported—in other words raw and partly finished goods which will be refined by German labor in German shops, and re-exported for a profit.

Of course, the purpose of the reparations agreement is to re-establish Germany as an export nation, so that it can meet its debts. At the start there is no question that products laid down on German wharves from outside will overbalance what is exported. As the reparations plan gets under way, this situation is expected to reverse itself. By this it is meant that in the course of time German competition will grow—it will have to do that if the reparations agreement is successful—and it is likely that as Germany and the rest of industrial Europe get back into efficient production, there will be intensified competition in world markets.

But, broadly speaking, that will be a matter not of weeks or months, but probably years. And, after all, foreign manufacturing activity should magnify the consumption in European countries of American raw products, while, on the whole, reviving prosperity in Europe should raise the standard of living, leveling upward the costs of production more nearly to a parity with our own.

Whether, selfishly, we have much to fear of the future remains to be seen. For the present we can rest content that Europe's leaders have at last reached out and accepted a practical plan that is designed to bring financial reconstruction and economic peace. Accord in the matter of the reparations plan is only one step toward solving the difficulties of Europe. It is only a beginning, and no good purpose would be gained by picturing it in any other light. There is a long and weary road yet to be travelled before peace can be considered fairly established. The plan on which accord has been reached is still to be put into effect. Then there is still to be met the enormous question of the interallied debts. There is the question of bringing government expenses within the limits of tax collections. There are the questions of currency reform and trade relations, not to mention a host of economic and political issues which have come out of the war and post-war disruptions.

Much is still to be done to wipe out the bitter consequences of ten years of hostility and misunderstanding, but at least a start has been made, and clear-eyed men are satisfied for the moment with the prospect that society as a whole will be much the gainer by the stabilizing of Europe. Henceforward, instead of looking out upon a world shaken to its foundations and unable to recover from its war hurt, men look for one step to follow another toward the establishment of real peace and international well-being.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, October, 1924.

OCTOBER brings the year into its final quarter with tangible signs of improvement in the industrial output, and a perceptible gain in the buying of various commodities. Forces in operation favor an expanding volume of profitable production, but conservative appraisals of the situation govern forward buying, and while moderately hopeful, business leaders are still undetermined as to whether the betterment under way is of a permanent nature or whether it is a seasonal development stimulated somewhat by the inflationary tendencies inherent in cheap money, by the optimism generated by the agricultural situation, and by the progress of the reparations settlement.

As a general statement, the strong points in the situation far outnumber the weak points. Basic industries show improvement. The agricultural west, although not so exuberant as when grain markets were daily moving to higher levels, is making its enlarged purchasing power felt. Credit continues obtainable at low cost. The Presidential campaign is nearing a climax without disturbing confidence, and the progressive steps to rehabilitate Europe are having an excellent effect on sentiment.

In view of these conditions, there is in prospect a healthy trade movement for the remainder of the year. At the same time, the feeling among executives upon whose shoulders rest the responsibilities of mapping the course of individual business affairs is one that is moderately hopeful rather than decidedly optimistic. A clearer judgment will be gained, perhaps, when the election is definitely settled and when the actual operation of the reparations plan gets under way. It may then be determined whether the eastern demand for goods is well established, and whether western farmers have been lifted out of their recent despondency to a plane of prosperity sufficiently high to warrant large and sustained buying. There are many grain producers who still are indebted to creditors on notes that long have awaited payment, the settlement of which may curtail in some measure the anticipated wave of new buying from the western communities.

Increasing Demand for Credits

IT is obviously unwise, in view of the restraint which holds the country's prosperity in check, to indulge in undiscriminating optimism. On the other hand, it is equally unwise, in view of the constructive events of recent weeks, to assume a pessimistic view at this time. As in earlier months of the year, the outstanding feature of strength in the business situation is found in the readiness with which legitimate trade expansion commands credit support. There continues in the money market a condition of unusual ease, the resources of the commercial banks being ample to care for every normal demand of borrowers without having recourse to the rediscount facilities of the Federal Reserve Banks. At the same time that the individual banks show this strength, there is in the background the great quantity of our excess gold. Not so long ago our credit resources were barely large enough to handle American business; now the scope of our money market operations is widened so far that world credit demands are being increasingly cared for here. Yet the power of our swollen gold reserve exercises such an influence on rates that no noteworthy upward change has occurred.

There has lately been a substantial demand for credits in order to meet the movement of the wheat, cotton and oat crop, in order to care for new security issues, and in order to transfer dollar funds to Europe against advances made there. Carried far enough, it is not improbable that the extension of credits to Europe, together with new investment financing in local markets and new commercial borrowing, will have sufficient influence to bring about a moderate advance in rates before the end of autumn. From every present sign such an advance will not carry rates upward very far, because our existing credit structure is one of extraordinary breadth, and because, furthermore, its reserve base is so strong that it can support large loan expansions without showing signs of strain.

No one who gives even passing thought to what is going on can fail to be impressed by the degree in which the credit system of this country has come under the influence of what is going on abroad. So much credit is available here that its early productive use, by common agreement, can be gained only by extending a part of the supply beyond our own borders. Any movement for its full use solely within the confines of this country would result in an unparalleled inflation.

World Demand on Our Resources

THUS the United States has become in the truest sense of the word the credit reservoir of the world. It is to our market that others are looking for commercial credits and for the financing as well of their most ambitious projects. At the same time, it is to those others that we are turning to find a secure and profitable outlet for our surplus funds. On the one hand we see Europe, heavily our creditor ten years ago and now our debtor, seeking fresh advances here, while on the other hand, so sharply has our credit position been altered from the time, not long ago, when American finance looked askance at foreign loans, that we are more attentive to what Europe has to offer than at any time before.

It would appear that the determining equation of our money markets in the coming months will be found in international finance. There can be entertained, however, a reservation as to the immediate effect of all that takes place. Some people have concluded that foreign loans, even if they are only in moderate amounts, will alone be sufficient to bring about such a change in conditions, and such a degree of improvement in the exchanges, that Europe will soon be attracting back to itself our surplus gold. That is too much to look for at once. Credit advances to foreign markets will in all probability diminish the westward flow of the metal, but without any present indication of the extent of foreign credit demands, or without knowledge of the extent to which American creditors are prepared to go in making loans, it is extremely hazardous to predict any early turn of the tide that has directed gold toward American shores with hardly an interruption for the past four years.

There are so many new and curious angles to the present credit situation, and so many far-reaching problems involved, that the manner in which events are moving is bound to engage the active interest of every banker and business man whose thoughts are turned to the country's financial future. There is much to provoke thought in the complete reversal of the position of this country from that of a debtor to a creditor among the world's great trading nations. There is much to provoke further thought in the purpose for which we are extending our funds, in contrast with the purpose for which Europe invested so heavily here during the latter part of the nineteenth century. During the period of this country's greatest growth, prior to the war, the flow of capital and credit from the old world was for the development of virgin soil and new industries. Now the flow of capital and credit back to the old world is to rehabilitate soil and industries that long ago were developed. The contrast is one that has many applications, political as well as economic. Certainly it indicates a dramatic change in the position of the world's youngest nation from that of a generation or two ago.

Far-Reaching Effects of Our Credits

ON the whole, there are many baffling questions that present themselves in the world of trade because of this change. The war and its aftermath destroyed the old equilibrium of trade and finance, as it existed among the nations, and its reestablishment must be a chief problem of the future. Europe is deep in our debt, whereas formerly it was the other way about. For a time the process of going deeper into our debt may apparently stabilize the exchanges and stem the gold flow away from Europe, but it is readily seen that this process cannot possibly lead to a permanent solution of the existing situation, unless a new kind of equilibrium, previously untried, is to be established.

Those who study all the issues involved keep coming back to puzzle over the effect of our newly won credit position in the markets of the world. Quite apart from the interest due on the debts of the Allied governments, more money is now annually owed to us in interest on foreign investments than is due from us, while, through our export of commodities, capital and credit alike, we are coming swiftly to a position where every important trading country of the world must pay us tribute. How is the tribute to be paid? Not in gold; Europe hasn't enough of that, and we have already too much. Not in Europe's paper money; we have no use for that. Perhaps it can be paid for a time longer in notes, bonds and other pledges. But that method by itself will only defer ultimate payment—that is, unless we choose perpetually to reinvest abroad the interest that comes due to us, leaving our profits to accumulate and then reinvesting them over and over, without bringing them home.

Our Position as Export Nation

THE only alternative remaining in the longer future is settlement in goods of foreign production, and those who puzzle themselves over the question wonder whether, if we thus accept goods, we shall not, as time goes on, receive more goods than we sell, and whether we shall not, therefore, face a readjustment in our trade account far-reaching in its effect. To reconcile our position as the world's principal export nation with our position as the world's principal creditor nation is a large problem, the settlement of which must have a bearing on the future of every American farmer and city worker. It is useless to suppose that any trade equilibrium can be reached on the basis of continuously extending credits and continuously exporting large quantities of goods —particularly if at the same time we seek continuously to restrict imports. There is fear even now that under the operation of the new reparations program Germany will become a great exporter again, thus menacing our position as an export nation. Just as the Allies a few years ago demanded vast payments from Germany and then exercised their ingenuity to prevent her from paying them, so there are people in this country who now, while they would constantly with one hand devise credit schemes for financing exports, would with the other hand make it as difficult as possible for such credits to be repaid. Carried to its logical end, after a certain point such a procedure would succeed only as we made annual presents to foreign markets of our surplus products.

We are living in a curious age, in which apparent discrepancies count at the moment apparently for little, and in which new situations are met, though not always solved, as they are created. Perhaps, after all, the enigmas of today will solve themselves without difficulty tomorrow. For the moment we are deferring the issue of the effect of credit on trade by adding new credits to those which have gone before. The situation, so far as can be judged, is being met in a way that best serves the purpose of all, in the faith that final results will amply justify all that is done. Financially as well as politically there are many awkward questions still to be settled in the world's affairs, but as in the question involving the reparations, these questions, if they have an intelligent and sympathetic understanding, will, we hope, settle themselves with the least friction. That kind of understanding will require time and patience to bring about.

To co-operate with our clients to the fullest extent at all times has been our aim since our very foundation — more than one hundred years ago.

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New York, November, 1924.

ALTHOUGH there are heard many expressions of caution with respect to the trend of business, conditions throughout the country are by no means unfavorable, and business on the whole is gaining. Output in certain of the basic industries continues to run below full capacity, but compared with the recent past, iron and steel orders have grown in volume, the textile industry has made progress, there has been an improvement in the automobile trade, and sales of mail order houses are substantially in excess of this time a year ago. Export trade shows revival and general employment is greater than during the summer months. Volume of railroad traffic, as reflected by the car loading figures, is at the highest level on record. Commodity prices, on an average, are substantially above a year ago.

The conservative tone that dominates the country's trade and finance, in face of the current volume of output and distribution, and in spite of the low cost of borrowing at the banks, is significant of the change that has come in the average business man's attitude toward his responsibilties. Conditions in the industrial and manufacturing fields have altered appreciably in this respect as compared with a few years ago. When prices in the period immediately following the war were on a scale to permit enormous profits, and when the movement was one that drove prices almost steadily upward, the business man's attitude was universally one of easy confidence, that prompted heavy forward buying. But now, when producers are handicapped by high labor charges and by prices that are determined more than before by close competition, the average business man's attitude is one of caution, and sagacity is prompting careful management in order that operations may be conducted at a profit rather than at a loss. Such forward buying as goes on is not speculative in its nature, but for the most part is to provide against orders that are actually in sight.

Meaning of Good Crops and High Prices

BECAUSE trade betterment in industrial centers depends to a large extent on the prosperity of the agricultural regions, much attention is being paid to the developments in the middle west. The backbone of good times in this country undoubtedly is a healthy condition of the farms, hence an upward wheat market, combined with a large yield, are given more than passing attention at the present time. Sooner or later prosperity in the great agricultural regions should strike a response among the industrial centers of the east, although for the moment the maintenance of high wheat prices means most in the northwest, where the financial distress of last winter was most acute. It is there that the greatest crop improvement has occurred. Minnesota's prospective crop is 62 per cent. greater than its crop last year; South Dakota's is 33 per cent. greater; the North Dakota crop promises to exceed that of 1923 by 96 per cent. Taken in conjunction with the advance in prices, the wheat of these three states will be worth more than double that of a year ago.

While the spurt in wheat prices early in October was not wholly maintained, it did result in raising the average price which the wheat farmer is receiving to the highest level of the year. A rising market under present conditions is much more significant than an advance would ordinarily be, not only because prices of grains have been out of line with other prices, but because the advance comes with shortage abroad and a large American crop, so that what is going on helps to restore the nation's economic equilibrium. In July the Department of Agriculture estimated this year's wheat crop at 740,000,000 bushels; wheat was then selling at $1.13 a bushel. In September the Government's estimate was raised to 835,000,000 bushels; the price then had risen to $1.27 a bushel. In October the estimate was raised again to 836,000,000 bushels, and the price then went to $1.50 a bushel.

The greatest advance in wheat prices, it will be noticed, comes this year at the time of the greatest movement to market. This fact disposes of a theory so often propounded by members of the farm bloc in Congress, that the farmer suffers most who has to sell his wheat as soon as he harvests it. It has often been heard that with all the wheat coming on the market at one time of the year, prices are lowest at that particular time; it is a view widely held that advances come only after the farmer has sold his wheat, thus permitting speculators to secure all the profits.

It is this belief that so often has led to attacks on the grain exchanges, to legislative restrictions on speculation, to proposals that the farmers combine to hold their wheat off the market for speculative purposes, to suggestions for free Government warehousing. However, the market for wheat is a world market, and throughout the world harvesting covers the greater part of the year. And even if this were not so, the thorough organization of the market, with its unlimited facilities for future buying and selling would tend to equalize the price throughout the year. If it were true that wheat is always at its lowest price when farmers send their produce to market, and that it is always advancing a few months later, it would cease to be true as soon as speculators found it out. For in that case they would buy wheat heavily at the farmer's marketing time and hold for later sale. The result of this buying would be that wheat would thereupon cease to be low when the farmers sold, and that the later advance would cease to be certain, for there would be too many speculators trying to sell what they had previously accumulated. Just that, in fact, is what usually happens. The Minneapolis Chamber of Commerce, as a result of a study of wheat prices for a period of twenty-nine years, has found that the farmer who was compelled to sell his wheat in the period of heaviest movement to market—September to December—was actually more fortunate in his price than the farmer who carried his wheat over into the season of light movement to market—from May to July.

Beginning the World's Rebuilding

DATING from the remarkable success of the German loan, international finance and politics have entered a new post-war phase, this phase being one which is destined unquestionably to bring progress in Europe. The loan stands in the nature of a European milestone, coming, as it has done, at the beginning of the second decade since the opening shot of the war was fired. The first decade brought to the world such a march of hateful events that it ended with the strain on the people of Europe too great to bear, the consequence being that all of them were calling insistently for constructive action that would override political forces. The second decade since the beginning of the war find steps actually taken to better conditions, and it would appear that a forward impulse toward world recovery is at last definitely under way. Although obstacles in the way of uniform recovery are still great, that impulse will be carried forward if the past evils of political obstruction are really corrected in a measure that will permit industrial revival, with free commercial operations across frontiers.

Economic and financial difficulties are still confronted, but we can be sure of at least expert direction. From the time of the armistice in 1918, up to the present year, political leaders, without seeking this expert direction, reached out for a way to bring peace to the world. Up to this year they proceeded on wrong theories, and so failed to reach any common understanding. Germany's gold loan, following close upon the new agreements on lines laid down by business leaders, has marked a change; the way is open for a movement toward a normal economic status.

Constructive Forces in Ascendancy

IN most of Europe the old spirit of intolerance and obstruction have ceased to consume the initiative of the people, but even so recovery from the worst effects of the war and of the post-war errors will be slow. Good-will and cooperation cannot at once wipe out all the scars of the war; they are too deep for that. It is safe to say however, that Europe will progress as political strife is replaced by patience and understanding, and as the will to destroy gives way to the will to build. The will to build is growing, and finance is now being looked to for support. It is along financial lines that American help is being most earnestly sought, and it is a foregone conclusion that the flow of credit from this country to the old world will increase if the events which are transpiring really mark an entrance upon a new economic era. Certainly the recent flow of credit from the United States has manifested the confidence of American lenders in the future; the huge oversubscription to the German loan proved the existence in this market of an abundant supply of funds willing to seek outside investment when terms and security are alike considered attractive.

As a creditor nation we are entering a stage more advanced than at any time before; no one can say today how far we are destined to go. Our earlier ventures in foreign credits consisted of loans for nations themselves; most of these were government-to-government loans, advanced for war purposes, with security and terms of repayment only secondary considerations. Such loans have come wholly to an end. Loans are now being made from private sources to foreign governments and industries, and have expanded so far that this year, in addition to the loan just made to Germany, loans have been made by American investors to the Swiss, Dutch, Norwegian, Belgian, Czechoslovakian and Hungarian governments, not to mention many private foreign enterprises. Such loans have partaken half of a business and half of a political nature, the investor considering terms and security, but judging the latter by general political impressions as well as by detailed study.

There can be no doubt with respect to the opportunities for profitable investment of American funds in the various countries of continental Europe; at the same time, a word of caution may not be amiss to those who seem to be taking account, at the moment, only of the high rates of interest which may be earned on such investments, overlooking the hazards involved. There are hazards, and in many instances they are great, so that if loans are to be made with safety to American investors, they will require detailed study, patient investigation, and unusual banking skill. As foreign authorities have not failed to point out, European bonds issued and to be issued here are not to be accepted on the analogy of the American bonds issued in Europe during the nineteenth century. Such an analogy would be a false one, because, taken in the aggregate, there is no tremendous wealth increase in prospect in Europe, as there might be in a virgin continent, and no growing sinking fund out of which securities might be speedily repaid. During the period of America's growth prior to the war, the flow of capital from the old world stimulated this country's remarkable development, and European investors thus gained a considerable stake in the resources that came from that development. There is a difference between the development of new soil and the loaning to old countries. Europe's prospect is that of a slow, painful process of recuperation, and it is that prospect, together with the political hazards involved, which American investors will do well to keep in view.

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OF THE CITY OF NEW YORK

New York, December, 1924.

THE year 1924 is approaching its close with a large part of the financial and business community in an unmistakably cheerful frame of mind. The profitable harvests, the movement of economic recovery in Europe, and the clean cut victory of the administration in November's election have contributed to lift the clouds of uncertainty and doubt which submerged opinion recently. They have replaced them with an expectation of activity in the months ahead. Buoyant advances in security prices, with the most active stock market dealings in a number of years, have contributed much to increase the newly born optimism.

Even to a dispassionate observer it must be apparent that an uncommon change in the forces controlling business has come about, bringing the world of matter-of-fact affairs to occupy at the close of the year a far different position than that of midsummer. A month ago there was a general spirit of timidity in the financial markets and throughout business circles; now the feeling is one of confidence. It is only a few weeks ago that doubts were widespread with respect to the extent of the purchasing power of American farmers, with respect to political affairs at home, and with respect to economic progress in Europe. Until well past midsummer, in fact, it was feared that low crop values would exercise a definite curb on the agricultural west's prosperity, just as they did in 1922 and 1923. Until October, furthermore, before the new plan of German reparations actually went into effect, it was feared that affairs in Europe would hold progress definitely in restraint. And until November national politics constituted a bogey to frighten those whose attention was centered on the relations of government to business.

Features Responsible for Trade Optimism

IN all these matters changes have come swiftly, and it is now commonly agreed that the outstanding feature of the year, from a domestic point of view, is the extraordinary improvement in the west's condition, due to a combination of circumstances that lately sent grain prices upward at the same time that a large harvest was being returned. While from an angle of national and international affairs it is agreed that the outstanding features have been the election outcome at home and the success achieved in the progress toward European stabilization.

In the mood of the moment, because popular opinion has responded so favorably to these events, it is an easy task to enumerate the various encouraging factors in the situation, for they are referred to in every daily business discussion, while the unpleasant factors are thrown, for the moment at least, into a shadow. There are the various indexes which denote an increasing volume of trade, an increasing current of industrial output, an improved employment of labor and an unprecedented railway traffic. Further, there are the indications of a small supply of surplus goods in the hands of manufacturers and merchants, which, together with a marked degree of stability in the level of commodity prices, denote a healthy commercial position. And by no means least of all, there are the especially strong reserves of banking strength, which denote a supply of credit available to borrowers at reasonable cost.

Relation of Finance, Trade and Politics

THESE considerations, in the bright light of current optimism, have combined to establish a sound bottom for business confidence, and the popular mind—no doubt in large measure influenced by the advances that have taken place in security prices—has come to the belief that activity is to expand and that the country is destined to enjoy sound prosperity in 1925. As a matter of fact, the sudden enthusiasm over the outlook is something typically American; it has been spontaneous and has taken hold of imagination that previously had been resolutely uninspired. Typically American, also, the sudden sweep of cheerful sentiment has come in response to a factor that, after all, was not directly a business factor. The truth is that the country for some time prior to the national election was enjoying a good measure of prosperity, with balanced production, stable prices, and record car loadings on the railroads; yet it remained for developments in politics to stir optimism and stimulate the speculative imagination.

It goes without saying, of course, that recent stock market fervor would not have been so great had considerations other than those of politics been gloomy. It was the election that caught the imagination, however, for that event was at once interpreted as a deliverance from certain definite restraints, and as a release from fear regarding many of the nation's policies toward business. Considered broadly, the business man's attitude is that the election gave a telling blow to radicalism, and at the same time placed the new Congress beyond the control or direction of old-time blocs and legislative malcontents.

A single election does not determine the nation's career, nor is politics the dominant influence in our destiny. But the election of last month had a wider and deeper significance than many others of the past, and it has come to be regarded with increasing assurance as a pledge of a reasonable and constructive government policy toward tax matters, budget plans, tariffs, transportation, international relations and legislation dealing vitally with the nation's economic affairs. Business and finance now look forward to the prospect without the dread that it will be spoiled by hostile lawmakers, and thus the conclusion has been reached that important economic influences can be weighed without the qualifying sense that they all may be neutralized by bad politics or some other man-made evil.

Is Foundation of Prosperity Secure?

JUST how far all the optimism of the moment is warranted would be impossible to say. The future must determine that. Relief from political fears is a positive influence for good. New purchasing power in the hands of western farming communities, and new purchasing power in the hands of European customers are noteworthy contributions to brighten the outlook. The virtual elimination of the spread between the average of farm prices and non-farm prices is important, inasmuch as the disadvantage at which farm products for almost four years were exchanging against the bulk of other goods has been eliminated. So, too, the virtual settlement of many of Europe's vexing problems is important, inasmuch as sane upbuilding of international credit and commerce is possible for the first time since the close of the war.

Progress, then, is not due to cheap money or excessive speculation; in fact, business conservatism to date has been a definite restraint against overexpansion, and has proved an excellent check against any too-rapid increase in output and prices. The country's production curve is distinctly upward; operations in iron and steel, textiles, copper, lumber and leather, among other lines, have risen, and prices have turned in the sellers' favor, but there have been no signs of runaway movements, save in security prices. Money market conditions up to the present time have failed to show signs of noteworthy change from the ease that has continued for practically the entire year, so that warnings of impending inflation have been given only passing attention. Money rates have stiffened somewhat, but commercial borrowing, speculative operations and investment financing have together failed to find reflection in any unusual movement. The money market machinery is readily supporting the movements of betterment. It will rest with new developments as to how far it will go on doing this. The rapidity of the November rise in the security markets was indicative of how quickly restraint can be thrown off, and of how enthusiasm can overnight replace caution and fear. Should rising security markets continue, the effect on general business would be a stimulating one, and that in turn would make for expansion and perhaps inflation. If the movement carries the country toward inflation, the first cautionary signs will no doubt be found in the money market.

Factors Holding Optimism in Check

SUMMING up, then, it is possible to say that for the present there is a firm substratum for expanding prosperity. Yet the careful business man who is not swept off his feet by the first new trend of the business cycle, and who must determine policies that will reflect themselves in the end in his profit or loss statement, is still controlling his actions by other forces than enthusiasm. He is suspending judgment with respect to the current predictions of vast industrial and commercial enlargement next year. Furthermore, he is reserving judgment regarding the talk of an impending trade boom that is to carry on for a term of years.

Hopeful promises are pleasant to hear; nevertheless there is little to be gained over a long period by counting so heavily upon the cheerful points in existing affairs as to utterly shut out a right perspective. The outlook in the long run is bound to be determined by important underlying influences which existed prior to the last few weeks, and which still have to be taken into account. Many influences are favorable to a high degree; that has been shown. But none of these contain the power of economic magic to make everything right that has been wrong since the war. The world as a whole is still traveling under formidable omens toward the future, and it is not safe to judge that future by the moment's value, no matter how great, of any single group of events or developments.

It is of importance that the United States should this year have good crops and steady prices, and that it should stand in prospect of a rest cure from too much lawmaking. It is as important that other nations should be returning to production and credit strength, and that they should at last be finding a way to peace and happiness through the leadership of capable men and a return to clear political thought. But economic legacies of the war still remain to hold a powerful check on unqualified enthusiasm, and there is reason to believe that these legacies are still sufficiently heavy to prevent any complete and speedy release from those difficulties which for a long time have circumscribed international trade, credit and exchange.

A Broad View of the Outlook

WHAT is being written now is not the beginning of a new book in post-war history; rather it is a chapter that follows in close sequence another chapter that appears to be near a close. It will not show the world made over all at once. Basic changes do not suddenly evolve, and the evils that held progress back in the past will require time and patience to correct. Ten years since the beginning of the war, and six years since hostilities, find many issues unsettled. After other wars, nations and states had to face internal rebuilding; now they grapple with a need for international rebuilding that is of magnitude. Extraordinary problems continue to face business leaders; the cost of the war, the mistakes of the post-war years, the international credit dislocations, the trade competitions, the weaknesses of human nature; the consequences of all these must still be reckoned with.

From a mainly practical standpoint the present situation in the United States contains undetermined problems of production costs, labor efficiency, market distribution, prices and profits. Wage scales are high and in numerous cases manufacturing profits are low. Underlying the situation is a general inability to determine just how far expansion ought to be carried. We have an excess capacity of production in some directions, though just how far that excess goes cannot be proved. There is no exact rule by which the country's ability to produce can be measured against its ability to sell. Conditions of domestic and foreign markets together must determine that. Since 1919, a year of feverish activity in the United States, the country's capacity for manufacturing production has increased 15 per cent., according to figures just prepared by the Department of Commerce, while the capacity for mineral production has increased 31 per cent. and the capacity for forest production has increased 37 per cent. There may be further increases in sight, although only a little while ago it was a source of common discussion that our productive capacity had been developed far beyond domestic consumption. Mills and factories working at only 60 or 70 per cent. of their ability were shown to be turning out a product as great as that reached ten years ago when everything was running full blast.

The Problems of Over-production

SO then, the question is pertinent that is being asked, "If our producing power is to be feverishly whipped up, where are our markets to be found?" The problem that faces not a few manufacturers is to lower the unit cost of output either by enlarging production or by cutting that cost arbitrarily, and production cannot permanently be enlarged unless the markets of consumption are available and ready to take what is produced.

The buying power of both the agricultural west and Europe is no longer so greatly depreciated, and the broad tendencies which are to govern industry and trade in 1925 are beginning to manifest themselves clearly. So far as they indicate widening markets for American products they are distinctly hopeful. So far as they indicate enlarging output on the part of competitive producers, they are not so hopeful. "If there is anything clear about the future," wrote a recent critical observer, "it is that the American manufacturer—no matter of what—will do well to look at his cost sheets in the next few years, for if the rest of the world gets back to hard work and thrift and peaceful trade, the differentials in living standards will be working against us days, nights and Sundays, and we shall face real competition."

Europe this season sorely needs American foodstuffs to make up the shortage in its own crops, and must have American copper, cotton and other basic commodities. For the present, too, it must purchase heavily of American manufactured materials. Immediate conditions do not alter the fact, though, that the deeper currents of the world trade are changing as a result of the need of other nations to produce heavily for export, and as a result of our relations as creditor of European nations. These currents will change either rapidly or slowly in accordance with the speed of Europe's recovery, in accordance with Europe's debt payments to us, in accordance with the extent to which the living standards and wages of European labor remain below our own, and in accordance with the extent to which trade barriers are raised against the free interchange of cheap foreign material.

There remain few people who believe, as so many did a few years ago, that the productive capacity of the country can be employed fully in caring for domestic needs alone. The relation of our export markets to unit costs, wages, employment, prices and prosperity in general is better understood than at any time before. So then it will be agreed that current problems are not merely matters which deal solely with domestic production and distribution; they deal with the whole complex scheme of international trade and finance, made more complex than ever by the commanding position the United States has come to occupy through the accumulation of more and more of Europe's credit obligations.

How it will all operate remains to be seen. But what goes on abroad is bound to temper the views of American producers as to expanding plant capacity and increasing wage scales and cost sheets, even though the early prospect may truly be for a sound and enlarging demand for their products.

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OF THE CITY OF NEW YORK

New York, January, 1925.

ONE may fairly say that the year 1925 opens with the brightest augury for the civilized world since 1914. Ten years ago, when the armies of Europe were let loose, human happiness lost much of its meaning because of what was represented in the parallel lines of trenches that stretched across the face of France. Six years ago it got back a part of its meaning in the outpouring of thankfulness inspired by the armistice. Today it has regained most of its meaning because nations are no longer peering fearfully into the future, as they had been doing so long, but are building together for that future.

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Some of them are building in sober recognition of how difficult and prolonged is the task—but they are building. All of them are working within limitations—but they are working. It is far from an entirely happy world in which the forces of reconstruction are operating. It is in no small part an impoverished world, and in some regions still a distracted world. There is unrest in different countries, distrust and dislike still linger in many breasts, and there are weighty social and economic problems yet to be solved. Still, it is only a confirmed pessimist who will refuse to recognize the healing processes that have begun to work. All about us is a visibly war-scarred world; at the same time all about us is a visibly forward-moving world. Economic debility is giving place to recuperation, and prostration has been replaced in many directions with new vigor.

On this side of the Atlantic the new year opens with a particularly bright augury. Peace and tolerance at home, and a government more economically operated and less burdened with radicalism than in a number of years, are coincident with an international friendliness that goes out to, and returns from, every nation with which the United States is in contact. Domestic industries generally are improving their activity, and credit facilities are adequate for every right demand. Trade is generally in a state of sound prosperity. Output is moving readily into consumption, with manufacturers' inventories conservative, and with retailers far from being overstocked. The banking situation is in a state of health that precludes—unless restraint is relaxed—any danger of an early trade-withering stringency. The East is in funds because of sustained output and stable prices. The West is in funds because of crops that have been marketed to unusual advantage. Larger production; reasonable money rates; restored buying power in the grain belt; record movements of domestic transportation; profitable foreign commerce; stable commodity prices; active employment of labor at good wages; easing tax burdens; all these are coincident with, and contributing factors to, a higher American standard of living than was known at any time before.

Changes that Make Prospects Cheerful

THERE are of course flaws in the details of any picture that is painted broadly, but taken as a whole this country has lately gone on progressively in industry and trade, overcoming setbacks as they occurred and building on its successes, so that 1925 opens with better living conditions for the masses than any other year in history. As much cannot at the moment be said for other countries. Most of them have a long way to go before real prosperity returns to them, nevertheless, they register contrasts which mark definite progress in their affairs. Indeed, it is in Europe where events leading up to the present favorable comparisons have come most swiftly, with most theatrical vividness, and with most far-reaching effect. Until recently the feelings engendered abroad by the war were so bitter that they stood squarely in the way of recovery. Today recovery is actually under way. It is only two years since the fear and suspicion of continental Europe were aflame on the occasion of the Ruhr occupation by French troops. It is less than two years since reason and reparations were total strangers. It is hardly more than a year since Germany reached the depth of financial degradation by repudiating its old paper currency with a single sweep that translated a trillion marks into a single humble rentenmark. It is less than a year since France, disillusioned over its war gains, and disturbed by the shadow of what had come out of its military diplomacy, brought into power a new diplomacy. It is six months since the Dawes Plan was formally adopted. It is three months since that plan was actually put into effect.

Europe's Readjustments and Recovery

CHANGES for the better in Europe have come, it will be noted, in swift sequence. They have been effective, and no longer can it be written—as it was written by a serious American onlooker in April, 1923—"on all sides lurk unrest and uncertainty; it is the case of a universe adrift." Readjustment and reorganization have replaced discontent and bewilderment abroad. Sound guidance would seem to have been found at last. Leaders, many of them new to their tasks and therefore not bound by old precedents and animosities, have assumed a firm direction of affairs. Conditions have thus approached nearer than before to a point of settlement, while employment has increased, state budgets are being balanced, debt obligations are being funded, and people generally are working back to a more nearly normal status. This course of events shows that firm leadership has supplied what most was needed in Europe; namely, cooperation and conciliation, and a sane balance between courage and prudence.

Economic Benefits from United Effort

THE progress under way, as the present year opens, means that nations are facing at last in a new direction, with victors and vanquished alike building together for the future in an acceptance of the fact that they are living together, after all, in one neighborhood. The millenium is still far off, and many of those who were enemies a few years ago still nurse their jealousies and suspicions. Fears are occasionally aroused, as they were at the close of December, when Germany was charged with having violated its treaty agreements by manufacturing and storing arms and war munitions. These heritages of the war aside, however, it is accepted as a principle that the individual ambitions of single nations are incompatible with general stabilization. The single fact that the Dawes Plan is really working is proof of the wide return of political and economic sanity to a region lately distracted by misunderstandings and hatreds.

It sounds a bit trite to say that the world has been pretty well made over economically, yet that is an unavoidable fact, and what it means is that civilized nations, having passed together through the agony of the war period and the suffering of the post-war period, are together entering upon another period that is entirely new. The years 1914 to 1924 embraced a decade whose war and post-war events will stand out in history so long as men live. In their course one occurrence after another marked all the passions, the misunderstandings, and latterly the yearnings to which the human race is subject. That decade is now ended. Added together, its events have brought the world to the position in which it stands today, and so, at the beginning of 1925, more engrossing than anything else is the prospect of the new epoch that is ahead. It is far from an entirely happy world that is entering this new epoch; that has been said. But it is a world that is facing forward with a new spirit of enterprise and with a determination to overcome the drawbacks of its past evils.

So far as the United States is concerned, it faces the future with many amazing advantages, yet the fact that Europe is the stage where the struggle of recovery is under way does not by any means remove the United States from having an interest in the struggle as it goes on.

What is America's Stake in Recovery?

WE hear it said very often that the United States is wholly self-contained and can get along regardless of what goes on in the outside world. Perhaps that is true; still, its economic history thus far has been linked pretty closely with the outside world, and its trade and financial contacts today bespeak tangible ties for a considerable time to come. Habits of mind are not easy to change, and one finds his mind reverting very often into the grooves that were worn in the years before 1914, when industries in this country were beholden to the investors of other countries, and when American markets still considered it essential to their welfare to look to Europe's capitals for guidance and help. Matters today are completely reversed from 1914, but instead of having parted relations with Europe, we find that, to a greater extent than the average American realizes, it is to our investors that the industries of other countries are heavily obligated today, while it is to our markets that European capitals are turning more and more for guidance and help.

Not only by contrast, but in actual fact, the place which the United States occupies in the world's trade and finance has come to be a commanding one, so that our stake in the course of recovery across the sea is important, and becomes more so every day. Even now, when the obligations of foreign borrowers to the American government and to American private lenders run in the aggregate far beyond fifteen billion dollars, further large advances of American credit are being made in Europe, at the same time that great quantities of goods are being shipped thither. Compilations of foreign issues sold in the American market in 1924 yield a total of more than $1,200,000,000; banking and commercial credits swell the total.

Flow of American Funds to Europe

IT is clearly evident that the rehabilitation of Europe is being brought about with the positive aid of large drafts on American capital and credit, and every present sign points to a continuance of the flow of funds designed to aid in the restoration of Europe's economic life. That American investors are ready to invest in foreign loans has been proved by the enthusiastic responses to recent offerings of securities by European nations. That American banks are willing to assist is shown by the readiness with which they have extended commercial credits abroad—a readiness, indeed, which has called forth warnings against hasty and unwise loans. With particular reference to Germany, it has been pointed out that, while foreign credits and loans will be required as trade expands, German industry and business will not be helped by accepting large amounts of short-time direct accommodations from institutions in the United States which are not fully informed on all the requirements, and which compete quite unnecessarily with German banks.

As a large-scale investor in foreign securities, and as the world's leading international creditor on commercial account, next to the English, the role of America's capitalist and banker is a comparatively new one. The ascent of this country to its place on the world's financial throne has come too swiftly for any one correctly to appraise its effect, and it would be foolhardy today to attempt any prophecy of the country's international destiny. Like other countries, though on a far different scale, the United States has still to find itself, and in seeking to do that it has no precedents to go by. At no time in history has there been a country whose eminence in the fields of production, commerce and finance, at one and the same time, even measurably equalled that of the United States today. This country's current production of both raw and finished materials is greater than that of any other. Its current commodity export trade is greater than that of any other. Its current export of capital and credit is greater than that of any other.

Large Effects on Trade and Finance

NO country has ever gone through what the United States is going through, and by every rule of trade and finance this country cannot continue indefinitely to follow its present course. Large as it is, American production is destined for greater growth; that is conceded by every one. But in time there are certain to be vast changes in the country's export trade if finance continues to extend loans abroad on the existing scale. Conversely, there are certain to be vast changes in the country's finance if exports go on building favorable trade balances on the existing scale. No producer can go on, year after year, selling goods to customers and providing those customers at the same time with the money to pay for those goods—that is, unless he is content to pile credit upon credit, until the amount grows to immense and unmanageable proportions. An example is found in the awkward questions of the interallied war debts, which still remain to be settled and which have a bearing not only on Europe's peace and prosperity but on our foreign trade relations as well. Ultimately the currents of credit must turn or the deeper currents of trade must change.

Just where the right place of any country in the new general economic scheme will ultimately be found is altogether beyond mortal view at present, but a place for the United States as a great exporter of goods and at the same time as a great creditor is the most difficult to imagine. Such a place is bound to be extraordinarily unlike that of any other. However, until Europe is producing normally again, and until a more orderly condition obtains in world trade and finance, it will not be possible to mark out for the United States a fixed economic goal.

Ours is an extraordinary position, but it is one whose problems, such as they are, come as a consequence of predominant economic strength. Thus our problems are not those of building up what has been broken down, as are the problems abroad. Rather they are those of establishing the use and direction of our power. That power is very great; as the London "Chronicle" was quoted by cable as saying, on December 28:

"There has been nothing like it before in the history of the world. The power of Rome and Carthage was small compared with that which America wields today. All of this power, too, has been won not by the sword, not by physical conquest, but by the new kind of imperialism peculiar to our industrial epoch—economic imperialism."

After all, that is the larger picture, and its larger problems rest with the longer future. For the moment, as the world's greatest producer and at the same time the world's greatest accumulator of savings, the United States is moving forward both in production and investment. It is developing domestic markets, and it is contributing much of its power to world reconstruction. Farmers and manufacturers alike are seeking and finding markets for their output, and capitalists and creditors alike are seeking and finding outlets for their funds. Our domestic needs are constantly growing, while the outside world is short of food, raw materials, manufactured goods, capital and credit, and is looking here for them. American industry and finance are bound to play a large part in affairs during 1925, because they are so much the source of supply of what the world in general needs.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, February, 1925.

SPEAKING generally, trade and industry in the United States are in a healthy condition, with sustained output and stable prices. Industrial production is above normal, with increased prosperity in the steel and metal trades, in textiles, coal, railway supplies, electrical equipment, chemicals and lumber. Freight shipments over the country's transportation lines are the greatest for this time of the year on record.

Looking back over the records of the past six or seven months, to the summer of 1924, we find that the country's activity has shown an unusually favorable gain, yet curiously enough there is a degree of self-restraint throughout the business community that is in contrast with many of the trade prophecies that ran so generously to superlatives at the opening of the year. The situation is one that is not only interesting at this time, but with respect to the business outlook it is important.

Part of the banker's recognized duty is the exercise of restraint through well considered advice and through the proper direction of credit. Repeatedly in past years, when money was cheap and when business was on the up-grade, his voice has been heard in warnings against the evil possibilities of overexpansion, and his efforts have been opposed to readily secured and wrongly applied credit. The banker, as a rule, has this year repeated his cautionary warnings; at the same time—and this is particularly worthy of attention—instead of finding himself called upon to exercise restraint on borrowers attracted by the current level of loaning rates, the banker has found in numerous cases that commercial borrowers have imposed upon themselves their own restraints and restrictions.

Perhaps this is a momentary phase and will change as the year advances; continuing optimism is contagious, and opportunities to gain profit through expansion soon overcome caution. Nevertheless, it is generally true just now that throughout the country new borrowing is not extensive, nor is there an overstimulation of business imagination just because so many factors are favorable to expansion or because money is cheap. Reasonable money rates, to be sure, are conducive to a hopeful sentiment, and improvement is all the more firmly grounded because of the ready availability of credit.

Healthy Expansion in Business

RECOGNIZING all this, the habit of business men seems to be to enter the market for accommodations only as they need them, and commercial loans have not recently been enlarged in any unusual measure. As a consequence the banks in general, for all practical purposes, have found themselves in a position to finance the nation's activities with less dependence on the Federal Reserve system than has been the case in the early part of any year since that system came into being, more than a decade ago.

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This does not imply that lack of confidence has sent business back; what it does imply is that rapid expansion and disturbing price advances have been held in check. In some quarters there is a sense of disappointment that the pace of general business has not matched the pace of stock market activity. There has been no violent quickening, it is true, but expansion has occurred, and as for prices of basic commodities, these have advanced, without sudden and violent changes, to their highest average level of four years.

It is a matter of congratulation, rather than disappointment, that the movements have in only a few notable exceptions been spectacular, and have not been like those of past occasions, when business enthusiasm led to overexpansion, rapid price advances, inflation and then eventual collapse. One finds definite and sound reasons for looking forward to the prospect that the first half of 1925 will develop a far better volume of business than did the similar period of 1924. It is nevertheless clear that forward-looking business leaders, holding certain reservations with respect to the year as a whole, are taking advantage of current opportunities without assuming too much risk, and are committing themselves for the future without too readily adopting policies that would dominate their operations, for good or ill, over an extended period.

Holding Buoyancy in Check

AFTER all, industrial plans necessarily move with deliberation, and it is not lost to sight that while underlying factors of strength offer a solid foundation for prosperity, they do not offer a full guarantee of that prosperity. World conditions are improving at last, but they have a long way yet to go before universal economic order is restored.

As for domestic conditions, much evening-out still remains to be effected in the American industrial and agricultural systems. Despite present activity, we have an unbalanced industrial equipment, and under certain conditions our manufacturers might in a very short time find themselves with more goods on their hands than they could conveniently market. We have an agricultural equipment that is under the domination of world conditions, and this year's volume and prices of both domestic and world crops are hardly likely to be exactly like those in 1924. There has been an advance in grain prices that brings the level of the wheat market to exactly 100 per cent over last June; "two-dollar wheat" signifies a large purchasing power for the west. However, a good part of current prosperity results from the circumstances that led to the windfall of large American harvests in 1924 when the yields of other countries were short. Canada's wheat crop last year returned only 261,000,000 bushels, as compared with 474,000,000 bushels in 1923, and European countries nearly all had serious crop shortage. It cannot reasonably be expected that 1925 crops will be at the same time as fortunate in the United States and as unfortunate elsewhere as they were last year.

The Controlling Forces of 1925

THERE is being built throughout the world a new economic structure, and the course of that building makes the prospect of 1925 one of intense interest. The year is bound to unfold events that will have a profound bearing on the destiny of every civilized nation. Our present scale of prosperity in the United States dulls to some extent the keen edge of conjecture regarding what is ahead; still, that prosperity is tied up, like the prosperity of other nations, with the way in which the new international financial structure is built. This nation is entering a new phase of its economic and political life, and whether we like to think so or not, much of its success depends, during this new phase, on its financial and trade relations with England, France, Germany and the other nations which took a leading part in the war.

As this nation faces the future, it finds it impossible to avoid the subjects of international trade, debts, reparations and credits; these all are taking a fixed and important place in the larger plans. Each of these subjects is interrelated and interdependent; each has its bearing on what is ahead.

Present State of World Finance

THE puzzle of our huge export trade balances, our enormous foreign loans and our gold exports will fall short of being solved this year, but developments in these directions are certain to play a large part in shaping both our financial destiny and that of other people as well. The subject of the interallied debts, at least so far as France is concerned, has reached the stage where the subject of the German reparations was eighteen months ago, and though much of the current discussion is acrimonious in extreme, a sorely difficult and puzzling problem—one, indeed, whose ramifications involve trade, industry, credit and politics—is at last in the way of being brought to some intelligent solution. We shall hear during 1925 much of the considerations which bear on the advance in sterling exchange from a recent discount of 10 per cent to within a shade of par. We shall hear much of the considerations which bear on the ending of Europe's currency depreciation and the restoration of budget surpluses to the principal foreign nations.

What is going on in the way of peace-time reconstruction shows, after all, how futile is prophecy. Present-day finance cannot cease to be a source of wonder in a period of numerous after-war economic wonders; so many developments have been so utterly unlike what was looked for.

When the war closed there appeared innumerable prophecies regarding what would come; so many of these, and so many that were made subsequently, have not been fulfilled. The war destroyed wealth and strained credit resources on a scale never known before; it broke loose from its gold moorings every major banking system of Europe. It was the resultant situation that led to so many discouraging prophecies; only a little while ago it was still commonly thought that investment capital would for a long time be obtainable only at a premium over the past, and that banking credit would command high rates for years to come. An early return to gold payments on the part of even the strongest European banks was despaired of.

Prophets have talked of universal hard times, dear money, an entirely made-over world. Yet what do we see? Prosperity, active business and rising prices are seen in the United States, at the same time that investment capital is seeking employment at rates which approximate those of the period before the war; short-term banking credit in New York was recently available at close to the lowest rates, with the exception of war years 1915 and 1916, of twenty-five years. As for what has transpired in Europe, we find that the Berlin Reichsbank is back on a stable basis, with Germany's currency, a thing utterly in disrepute in 1923, now backed by gold. We find Great Britain making progress toward a definite gold basis. We find France with a reconstructed budget that shows tax revenues in excess of its current domestic expenses. We find in nearly every country a steady increase in production and a series of accomplishments that observers up to a little while ago scarcely dared to predict.

What is Indicated for Us Today

IT is not easy to draw present-day conclusions, especially in view of the extraordinary place which the United States has come to occupy as a consequence of all that has lately gone on. One circumstance after another, while smoothing over the rough spots in Europe's finances, has in a sense made them, more than ever, dependent upon the United States. Each new development has seemingly added to this country's preponderating economic strength, and at the same time has more firmly established its position as money center of the world. Many of the newly erected structures of finance and industry abroad have been bolstered up with funds from this side that have been sent over either as capital investment or on credit.

From a strictly selfish viewpoint, and as a matter of national pride, it is pleasing to observe how far other people and other nations have come to look for help here, and the manner in which they have sought to procure American goods, credit and gold. But in the broad sweep of world affairs the things we are doing are not permanently curing the post-war ills. They palliate them, but leave it to the longer future to bring about the permanent cure.

Sterling and Gold Resumption

MORE than that, they make our position among the producing and buying nations an increasingly curious one. Take for example our recent activities: that we should have shipped abroad a billion dollars more goods than we imported in 1924, and at the same time that we should have extended more than a billion dollars of new credit, only to follow these two movements by an outward flow of gold, is something hard to reconcile or to build predictions upon. Especially is this so in view of what has been repeatedly said, year after year since the close of the war, to the effect that the anomaly of one single nation piling up credit on credit would ultimately break down international trade transactions, because of the fact that all other nations would find themselves paying tribute to the single creditor. This nation is today a world creditor on a more prodigious scale than ever, yet in the exchange market we have lately seen movements that confound every prophecy based on the commanding power of our piled-up foreign credit.

The pound sterling is within a closer margin of its gold parity than in the past ten years, and there is much discussion of the likelihood of an early return on the part of Great Britain to full gold payments. It is a notable thing that Great Britain has done, namely, to carry on its struggle to win back to the support of the gold basis on the old parity, and what is in the way of being accomplished adds new lustre to British integrity in finance. During the war and afterward, other nations wandered very far from the gold standard, but Great Britain sought to remain steadfast. It is worth recalling that the struggle was not helped by the opposition on the part of many leaders of English affairs to what was under way. There were those, for example, who were for ultimately returning to a gold foundation, but on a depreciated standard; they were for partial repudiation. There were those who saw no object at all in the idea of struggling back up the thorny path; they were for casting loose altogether from the established standard. There were those who were for delay; less than a year ago one of the great English banks reflected, in the following summary, a view of the situation that was then widely held in London:

> "It is generally agreed that a return to the gold standard would be advantageous, but only if achieved in the company of other important trading nations. There are dangers in a too speedy restoration . . . Futhermore, the only reason for having a gold standard at all lies in the international utility and convenience. The gold standard has been of more trouble than good to the United States during the past few years, merely because no other country has been similarly situated, and it might prove a still greater nuisance to this country (England) if restored without the concert of European nations."

Time after time, since the close of the war, there have been heard proposals that the nations which were forced to depart from the accepted financial standards at the outbreak of the war, and that were impotent to return, should demonetize gold and adopt other standards. Successful achievement of British resumption would go far to discountenance further such proposals, and would establish gold in its right place in the general rehabilitation. The world having been torn loose so violently from its old moorings, no one can say positively just what moorings each individual nation will finally tie to when it comes again to rest. After all, those who advocate the return of the gold standard do not assert that it is perfect. But their adherence to that standard, and their repeated insistence that lasting international prosperity cannot return until the exchanges are restored squarely upon a sound base, is not merely an infatuation for gold, nor is it an old-fashioned faith in a worn out theory. It is a practical proposition, accepted wherever all its ramifications are understood.

Gold has made its way in the world without the design of individuals; it came to be accepted long ago as the only satisfactory international medium of exchange, because it proved itself the one thing accepted everywhere at all times. This was true long before legislation on the subject was even thought of. Everybody with anything to sell has always been willing to take gold for it, and that of itself has made it a commodity with a world-wide demand. Gold has become the universal measure of value, medium of exchange, and basis of credit. A return to the gold standard on the part of the world's great trading nations has therefore been a logical expectation; its consummation will come in the course of time, and will surely mean much in the rehabilitation of the world.

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OF THE CITY OF NEW YORK

New York, March, 1925.

BUSINESS throughout the United States is active, but it has to some extent slackened the pace of the forward movement that began shortly after November's election. Buying orders are a bit less insistent than they were during the winter months, and the volume of industrial production has been checked until manufacturers can determine just how far immediate requirements are satisfied and how far forward buying can be depended upon.

The logic of the situation suggests some reduction in the manufacture and movement of goods, but this does not signify a culmination of any major business cycle. The reasons underlying the recent forward movement have been too well-grounded for that. Measured by all normal standards the country is in a prosperous condition and the prospect is one of continuing activity. *There is a strong buying power which is being favorably and intelligently employed.* Output and demand are well balanced, and inventories are relatively small. The banking and credit structure is thoroughly sound, with money quoted at rates lower than the average of a number of years. Politics, national and international, are encouraging to constructive business.

So many known factors favor good times that with the country's entrance upon spring, bringing moderate weather and opportunities for open-air work, it is not possible to be pessimistic over the immediate prospect. In every part of the country there is a large accumulation of wealth and an abundant energy and capacity, while so far as export markets are concerned, depression abroad has been turned into definite progress. The west, which was unhappily situated up to the middle of 1924, has had a large measure of purchasing power restored to it, and what is more, there has come about a correction of an important weakness, namely, the glaring inequality in the American price structure which existed from the time of the depression in 1921 up to last year. Prices for farm products as a whole are higher than at any time since 1922, and many farmers have paid off obligations and find themselves again on a solid financial basis.

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Supporting Business Confidence

WHAT is being seen, then, may be a minor swing in a period of prosperity, to be followed by another forward movement, though, to be sure, it is only proper to say that the outlook is one whose governing forces are of a kind that warrant no unbridled optimism. There is no roaring boom in sight, nor is one desired. Those influences which are most unmistakably favorable may be counted upon to support good business, but they do not provide a stimulus sufficiently powerful to sweep the nation into those scales of activity which occasion newspaper headlines and which stir those observers who classify the country as prosperous only when it is repeatedly establishing a new series of records.

With respect to every favorable consideration there are drawbacks and uncertainties to be considered. For example, the situation in the west is not wholly cleared by reason of prevailing grain prices; the export markets are far from being permanently placed in funds by the improvement that has occurred. In the grain states many farmers have money for new purchases even after discharging their old debts, but others are still short of being even, and instead of having substantial surpluses, they will have to seek credit from their banks before they place further orders, or will need another harvest to square themselves with their creditors and have a surplus that can be employed for the purchase of new capital equipment. In the export markets we are lending large sums to enable foreigners to buy; our capital and credit are putting other countries on their commercial feet, and those countries are buying here more than they would were our credit not available to them, and were it not cheap. On the whole, the importance of the crop windfall of 1924 is not to be over-emphasized in looking far forward into 1925, nor is the importance of large foreign loans to be over-emphasized in looking a long way ahead.

Small Measure of Forward Buying

IN scanning the picture of business conditions, and balancing the shaded portions against the high lights, two very interesting facts are disclosed by current developments. One is that the volume of forward buying is unusually small in contrast with the total volume of trade; the other is that manufacturing output is being so carefully keyed to demand that the volume of output follows as nearly as possible the volume of orders. The consequence is that shelves are not being filled, when orders decline, with unsold goods. The attitude is prevalent throughout the country to resist any temptation to be committed far ahead, hence changes in demand are quickly reflected in the volume of supply.

Necessarily the broader business policies of the wholesaler, jobber and retailer rest with the ultimate consumer, and the consumer's attitude is governed today by a caution dictated wholly by the urgency of his needs. That urgency is not intense, so that policies with respect to forward buying are exceptionally conservative, short commitments and quick turnover being widely preached and practiced. It seems curious under the circumstances that the winter should have shown such an excellent rate of production; it seems curious, moveover, that the "boom virus" which led, in 1919 and 1920, to such reckless manufacturing and merchandising, should not have infected the country's business organism. It is a fact that the volume of trade, the manufacture and movement of goods, and the quantity of retail sales have during the winter been above normal, yet the tendency of the consumer to buy guardedly has been communicated to the distributor in a notable degree, and in turn the manufacturer, called upon to bear the burden of carrying stocks, has found himself exercising unusual care and restraint, keeping his activities well in hand so that inventories might not expand excessively, and pausing now and then to give consumption and demand a chance to catch up.

What especially distinguishes the current condition of activity, in contrast with that which ended so violently in 1920, is the manner in which the credit situation is being relieved from any undue strain at this time, and the manner in which merchants and manufacturers alike, in every direction, are avoiding extensive forward commitments. Finance and business alike have adopted a policy which counts neither upon the best nor the worst that might happen, but upon what might reasonably be expected from past experience and present business trends. The policy of guarded buying and quick turnover has quite naturally brought forth many complaints from manufacturers and jobbers that they cannot keep their production costs under control, and it is being frequently pointed out that, as a result of the intense competition and the consequent limitation of prices, profits are less than they ought to be.

Keeping the Situation Healthy

THERE is no doubt a wide difference between the shaping of business procedure to supply a demand that is based upon a greatly increased number of small and spasmodic orders, as against a demand prompted by a mass of forward buying. It can readily be understood that the difference is reflected in a lower rate of gross profit. On the other hand, the difference is also reflected in a far more healthy mercantile situation than might otherwise be the case, for inventories have not piled up and prices are being firmly maintained, and there is in sight no condition that would warrant the fear that forced liquidation will be impelled if, through unfortunate circumstances, a sharper recession than has lately been seen in the buying demand should occur.

Furthermore, so far as prices are concerned, the manner in which business has been conducted, with both buyers and sellers appearing throughout to regulate their operations by a sense of values, has resulted in a pronounced stability in the country's price structure. Prices have moved up, it is true, to their highest average of four years, but in only a few special directions has there been a tendency toward speculation, the upward movement having been orderly and in no sense like that of the 1920 boom. It will mean a great deal to lasting prosperity if this policy continues. Steady price movements and an absence of widely changing levels go a long way toward insuring a continuance of active business; maintenance of good times invariably depends upon the maintenance of stability.

When producers are satisfied with reasonable profits, and resist the inclination to reach for every possible advantage, business moves in a sounder way than when the tendency is to grasp every possible profit in sight. There is in every upward business swing a natural temptation to overcome handicaps in manufacture by the simple expedient of raising prices. Factory costs are heavy at the present time, wages are high, and costs of transportation and turnover are great. Taxes add much to the burden. Still, it is not in rapidly pushing prices upward that the solution will be found for particular difficulties; that will more likely be found in the reshaping of business procedure to meet the existing situation. It is pointed out by those who have carefully studied the changing phases of business that high wages and short hours have forced builders, contractors and other large employers of labor to replan and improve their methods of construction or manufacture, and the conclusion has been reached that changed policies of forward buying in the last three years have brought about a genuine improvement in many business methods—an improvement, by the way, that in time will show its benefit as well to sellers as to buyers. But in any case it may fairly be said that adequate self-control on the part of producers, both in respect of output and prices, is now to be placed on a par with appropriate supervision of credit on the part of bankers as a factor insuring a lasting support for the foundation of current trade prosperity.

How Far Can We Overproduce?

THE absence of an overproduction of factory products, despite the large volume of output, brings forward again the subject of the country's relative capacity to produce and market goods. The normal consumption of the country is greater now than it has been at any time before, and the wants of the American people will undoubtedly go on increasing as living standards are lifted higher and as greater comfort is brought to the masses. As a nation of more than 110,000,000 people, whose opportunity for advancement is beyond that of any other people in history, and as a nation with vast outside markets, the United States cannot ignore the opportunities that open themselves to its mills and factories, hence it is sound business policy to build on the theory that wants will multiply and that consumption of goods will continue to increase.

Of course, as a general proposition there can be no great overproduction of goods, for human wants are never fully satisfied, and so long as there are human beings in the world who are shelterless, unclad and hungry, such a thing as overproduction is out of the question. But overproduction is readily possible, in a business sense, when buying power is lacking for the things that are produced, or when there is a temporary surfeit of the markets. It is when the so-called saturation point is reached that the normal working of economic laws implies some reactions—

not necessarily an extreme backward swing of the pendulum, but at least an adjustment and rearrangement in those directions where the force of the preceding forward sweep was most felt.

As a broad principle there is every reason to believe in expanding markets for American products, but as a practical problem of the moment there arises the question whether the present capacity for turning out certain American products may not after all be considerably in excess of the present capacity for marketing them. This applies not only to steel and iron; it applies in varying degrees to our coal, textile, automobile and leather industries, to mention only a few. In the steel trade it is recognized that an operation of better than 85 per cent. of the country's mills for any length of time means the production of an enormous amount of steel, more than can be absorbed by any peak of consumption that has thus far been known.

Dependence on Future Demand

ANY discussion is altogether unproductive which seeks to *prove* the degree in which the country has too great a capacity, so far as its mill and factory capacity is concerned. There are no fixed standards to go by, nor is there any rule by which a given industry's continuing ability to produce can satisfactorily be measured against its continuing ability to sell. Conditions of domestic and foreign markets together must determine both the immediate and the future relations of output and sales, and anyone who can even approach a safe prophecy of these things, in view of all the confusing and conflicting factors involved, has more than mortal intelligence.

It is because of all this that more than usual attention is being given to those industries whose activities have for some time been the most pronounced in recent history. The rebound in American business from the depression of 1921 was in large measure due to the extraordinary enlargement in the demands for those things whose output was seriously checked by the war; the combination of those demands furnished much of the backbone of business activity in 1922-23-24. The shortage occasioned by the war is more nearly made up than at any time before, and the urgency of demand cannot possibly be as intense now as it was. Last year alone some $4,000,000,000 was spent on building construction in the United States, while $3,300,000,000 was spent for automobiles and motor trucks. Measured by figures, these industries have come to absorb a great part of the nation's earnings and will go on doing so. But by very token of the figures given, in comparison with other years, it must be seen that a considerable part of the expenditures was made for the purpose of overcoming shortages.

No one is in a position to say what the future normal level of demand in our great industries is to be. No one, for that matter, is willing to say that because certain shortages have been made up a return to normal levels will presently mean severe curtailment. Statements to that effect have been made in the past, only to be repeatedly disproved. The subject of output and markets is one that after all admits of widely differing opinions, and the outcome will rest with developments, as yet unforeseen, in both domestic and foreign markets. For the moment, however, this much is apparent in the situation; the productive capacity of the country is generally ample to supply domestic needs and provide a large surplus for the export trade, and so long as buyers maintain the policy they have come lately to follow, there will be no violent whipping up of production and no startling upward movement of prices. Competition today is not among buyers to secure goods; it is among the sellers to satisfy markets.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, April, 1925.

PRACTICALLY all the familiar tests of business activity show the country at this time to be in a state of economic health. Labor is well employed at a high scale of wages, and is giving evidence of increased efficiency as compared with last year. Volume of industrial output shows a rate that is well above the average of 1924. Goods, as they are produced, are moving steadily into consumption. Price scales are stable, bearing in their stability a marked contrast with the movements of boom periods of the past. The credit situation is sound, with money rates somewhat higher than earlier in the year, but with no signs of stringency in any part of the country.

The general structure of business is sound, and though the shrinkage in stock market values, the recent drop in wheat, and the receivership of the St. Paul Railroad have been a check to extreme optimism, these do not give signs of any approaching business depression. The outlook is promising for a continuance of industrial prosperity, and so far as the fall in wheat values is concerned, it is shown that most of the 1924 crop is out of the farmers' hands, so that the purchasing power of the agricultural districts has not been seriously lessened by what lately occurred.

The Effect of Cautious Buying

THERE are, of course, certain trades, like textiles and coal, which are not benefiting as much as others from the current trend of activity, and even in some of those lines which are unmistakably busy there is complaint of limited profits. For the most part, where there are complaints they can be attributed to the failure of prices to move forward rapidly, for though the average of the country's commodity prices is the highest of several years, buyers are not bidding urgently for goods, nor are they seeking to protect themselves by ordering far in advance. The element of anticipative or speculative buying, which was a familiar feature of other trade booms, is not present at this time.

Our Prosperity and That of Others

MODERN methods, increased efficiency of the country's production and distribution, and a modification in the character of the country's needs (which no longer are of the urgent nature which followed the close of the war) explain this. Supply and demand are being kept carefully in line, and buyers are conducting their affairs so that the efforts on the part of producers and jobbers to push prices rapidly higher meet with only indifferent success. On the whole, the advantage of this is found in the element of stability that is added to the situation, insuring for some time to come a continuance of substantial prosperity.

The scale of good times in this country and the distribution of prosperity are more balanced than at any time since the close of the war. After all, however, it must be said that prosperity is taken pretty much for granted by the average American, who pays little attention to the contrast of his good fortune with the fortune of other people. In every other country a struggle is going on to reach a plane of prosperity that will throw old war legacies into a shadow, but up to now no other country has achieved a degree of prosperity that even approximates ours, and none is likely to have that for some time to come. Indeed, it is only with help extended from the United States that some of the world's greatest nations are restoring their production, their commerce and their banking machinery. American goods continue to go in large quantities to Europe to contribute to reconstruction. American capital and credit go to re-establish financial strength.

How Our Strength Has Grown

ONE circumstance after another has made Europe dependent on the United States, and the statement is repeatedly made that the United States must continue contributing its share toward foreign restoration. What that means politically is subject to various interpretations. Commercially it means the shipment of goods. Financially it means capital investment and credit. Out of our abundance we are counted upon to yield further help, in addition to what has been advanced thus far, in order that another continent may carry on its recovery. All that has gone on thus far in international trade and finance has contributed to help outside nations and has also resulted in building our economic position to one of preponderant strength. But lately attention has been directed to a cautionary view regarding this position of strength and so it has come home to us that the role of world banker and world exporter at one and the same time is subject to complications.

The war and its economic consequences were not of our making, and the subsequent course of events has not been of our selection. It was an accident of circumstances that made the United States the granary and the workshop of the allied nations during the war and that made it their arsenal when we ourselves took sides against Germany. It has been an accident of circumstances that has swept us further and still further into the situation of being at one and the same time the world's source of goods and credit alike. Whatever the circumstances, there is no avoiding the situation that has resulted; our so-called economic imperialism is as we find it, and its problems have become of large importance.

Foreign trade is only one of the numerous problems of reconstruction, but by itself it is one of the largest. It involves nearly all the social and international relations to which the world is giving particular thought; it touches us at many angles, for there is not a nation that ever had such a financial credit or such a total trade against the world as we have at the present time. We as a people are constantly seeking to secure a profitable outlet for our funds; as a people we also are constantly seeking wider markets for our products. But our funds are helping others to produce, and so the question of credits in favor of foreign borrowers, who in turn are also exporters in competition with ourselves, is being given a good deal of earnest scrutiny. Certain American manufacturers lately found European competitors matching them in our own home markets as well as in the export field, and others have voiced concern because credits secured in the United States are reported to have been passed on by the borrowers to their export customers in a way detrimental to American trade.

Relation of Credits to Trade

FROM a money-lending standpoint, both long and short term loans made in Europe recently have been negotiated at advantageous rates of interest to the lenders, and in most cases have had excellent security; they have been desirable loans, financially. Yet the question is justified as to how desirable, in the long run, they may prove to be commercially. Among some of those who ask the question, and whose point of view is strictly that of trade, there is an opinion that would have future advances accompanied by the provision that the proceeds shall be spent here. Some of those who hold that opinion would go a step further and withhold loans where the likelihood appears that these might be utilized in building up trade competition with ourselves. There are those who, going even further, and looking beyond the immediate present, would withhold additional foreign financing because the payment of interest and ultimate repayment of principal are expected to affect our international balance, and may have to be made in goods when the end of the financing period comes. Herein the American manufacturer is inevitably woven into the situation.

The various current views regarding the relation of our foreign credit advances and our trade are very practical; still, are the questions involved after all such that at the moment an intelligent disposition can be made of them? Ultimately, it would appear that the balance of our international trade and the balance of our credits will operate as opposing forces; at the moment, though, our merchandise exports continue very heavily in excess of imports. Trade policies interweave with banking policies, and right now instead of curtailing our trade, credits are supporting in measurable degree our commodity exports, which would be much smaller were they going out only on a cash basis.

How Far Has Europe Recovered?

THERE are those, of course, whose concern over European competition is such that they would have us at once become a self-contained people, raising barriers against competitive trade before even it makes its strength shown. They see the vision of the outside world shipping goods that will come into competition here, thrusting us into an oversupply that would mean unemployment, price disorganization and the unsettlement of our economic basis.

Yet it is a fact that most of the countries of Europe are not now in a position to go out with a challenge for markets. It is proving to be a slow job for Europe to get back into the productive swing with its depleted resources. Before health is restored to a body that has been ill there must be a period of convalescence, with proper nourishment. That is as true with a social group as with an individual. Moreover, in every case of convalescence the longer its period the greater loom the difficulties on the road to health. Generally speaking, it still remains for Europe as a whole to emerge from its period of convalescence before it can produce goods in quantity and of quality adequate to compete with American manufacturers in the world's markets.

In some directions foreign goods are, of course, coming into competition with our own, but that holds true only in particular trades. Germany's activities as an exporter occupy a large place in the current discussion of trade and credit relations, and much has been heard of the underbidding on the part of German shippers. At the same time, it cannot be shown that these shippers have flooded either our own domestic markets or any other markets with cheap goods. The 1924 returns of Germany's foreign trade are eloquent with respect to this; exports from that country last year did not reach 60 per cent of the pre-war quantity figures of 1913.

German Exports As a Factor

IT STILL remains that Germany has not taken its place in the export markets of the world on the old basis; more than that, it has fallen far short of any economic control that might threaten the trade interests of other nations. The doctrine and intentions of the Dawes Plan have all along assumed for the future an enormous increase in German exports as a cardinal condition for its proposals; to make reparation payments Germany is expected to gain outside balances by the shipment of goods. In the long run, for Germany to recover and become prosperous it will be necessary for outside markets to buy German goods in larger quantities than ever before.

But that is something for the longer future to bring about; in spite of all that has been said to the contrary, Germany's productivity is limited, and much progress must be effected before the country can go out and make a place for itself in the markets of the world. Figures compiled in Berlin show that the actual industrial output of the Reich is now barely two-thirds of what it was before the war, while the working capital of companies of all sorts within the country does not exceed three-fourths of the pre-war amount. The aggregate capital of Germany's banks is scarcely 30 per cent of the figure for 1913, and the gold value of the deposits held—which in the German view is the surest standard for determining the wealth of the country—is hardly more than 25 per cent of the pre-war figures.

Germany lacks capital; not only are its industries limited, but its people are poor and make no effort to disguise their poverty. They are anxious to be busy, and skilled labor is accepting such low wages as five and six marks—equivalent to $1.25 or $1.50 in our money—for eight hours' work. Although the German population is 15,000,000 more than that of England, Germany's unemployment statistics show that the men and women out of work number less than 600,000, or one-half those of England. Wages are low, living costs are high, yet the desire to work and the practice of thrift are much in evidence again. There are to be found on every hand evidences of economy of the most scrupulous kind. All this is favorable to German recovery; still it falls short of establishing trade dominance. Because of the lack of capital within Germany, the rates for money are so high that they impose a burden upon production, especially as industry is forced to rely upon loans to a far greater extent for organization and technical reconstruction than before the war.

These things are cited to show how far at least one potential exporter is still removed from gaining a dominance in the world's markets. And so far as our own trade is concerned, regardless of every other consideration, the basic fact remains that Germany must always be a big customer of the United States in many lines, for it is without an adequate supply of cotton, wool, oil, copper, tin, nickel, leather, meat, butter, fats, grain and other commodities. Germany imports 15 per cent of its food and the bulk of the raw materials required for its industrial processes, save only iron, coal and zinc; it is not in any respect a self-contained nation. Last year Germany was forced to import essential foodstuffs and raw materials exceeding her exports by 1½ billion gold marks—roughly $360,000,000.

It will be seen then that Germany must have rapidly growing exports as time goes on; those exports must be chiefly of manufactured things. But output in that direction is still far from showing the "unlimited capacity" which people have recently alluded to.

Trade, Credit and the Future

SUMMING up, from our own point of view, the new and vast trade and credit problems involved in what we are undertaking to do to help world reconstruction, all that can be said regarding them at the moment is, after all, that there are no rules of solution. Ordinary tests do not apply. The reconciliation of what now appear to be opposing forces must be left for a later date. No one, neither manufacturer, merchant or banker, can say what will be the result of the world's running into our debt within a period of eight years to an extent of $16,000,000,000. For the present we are not looking to the outside world to pay its debt in money or in a tremendous volume of goods, and so our funds, with new amounts added from time to time, are being kept at work in foreign markets, helping to build them.

Later on, of course, there must come a change in this procedure, either in finance or trade or in both, for we cannot forever go on as an exporter of credit and goods together. In the logic of the case repayment of credit and payment for goods must be made unless we are to consider that our shipments have been a free gift. Ultimately we must come to the point of accepting repayments from abroad. Much will occur, however, before that point is reached, and for the moment we must be content with the fact that, by the extension of our credit abroad, our export trade and our prosperity are enhanced and world reconstruction is facilitated. As world traders and world bankers that must be the answer to every question which is asked today regarding American operations in international affairs.

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JUN 20 1925

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, May, 1925

GLOWING statements on the business outlook are being made with less frequency than was the case at the opening of the year; indeed, disappointment and misgiving have become the tone of many of the voices that spoke with confidence a few months ago. "A plague on such vacillating temperaments!" is the comment of one observer who contrasts the views lately expressed with the great burst of business prophecy which attended the opening of the year, and those who recall the degree in which the optimist had his day echo that sentiment.

Only a few weeks ago there was a large volume of speculative buying on the stock exchanges and in the grain markets, and at the same time producers and merchants were enjoying such hopes and dreams of profits that signs of a boom were thick on all sides. Those signs, built largely on belief in the imminence of unusual if not unprecedented prosperity, have pretty well disappeared, and with them have gone many of the hopes of those who failed to take account of all the factors that stood in the way of a rapid and continuing expansion. With speculative losses facing them, and with the withdrawal of the prospect of unusual business gains, many of the extreme optimists of the winter have become extremely pessimistic, erring just as far in their swing in the new direction as they did in the other.

The current of business has vacillated in no such manner this year as to warrant either extreme hope or extreme despair. As a matter of fact, the situation in its basic aspects is very little different than it has been for some time past, and there is nothing in recent experience that should do more than sober extravagant hopes and restore a proper sense of proportion.

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Business Still Above Normal

THE year began with the volume of business above normal, following a very substantial recovery that occurred in the latter half of 1924, and it is above normal at the present time. A setback from the peak has taken place, production having been curtailed in those directions where it had begun to run beyond consumption, and here and there signs are given of an accumulation of unsold stocks. Coincident with this is a decline in the average price level of basic commodities to the lowest of the year.

Business has slowed down somewhat, both with respect to output and forward selling. But making full allowance for the signs of recession, it can still be said that on the whole activity is well established, for there can be no mistake in the meaning of the daily movement of freight over the country's railroads, which is at the highest record for this season of any year, nor can there be a mistake in the meaning of the daily exchange of bank checks, which is running well beyond the amount reported in any previous corresponding period. Building operations are heavy, mail order houses, chain stores and other retail merchandising establishment show an excellent turnover. Those who did not expect too much have had no occasion to feel disappointed at the volume of business that is being transacted, nor have they reason to be concerned over any new forces that have entered into control of the situation. The foundation of prosperity is too well established to be readily undermined; a strong domestic demand for goods and foreign need combine to make the prospect of coming months reasonably bright. It is too soon to know how prosperity in the farm states will be affected by the year's crops, but buyers in the west as well as the east are showing no undue restraint, and with the banking situation sound it can be said that if any downward adjustments are still impending, they will be in the nature of stabilization rather than reaction.

Influence of Politics on Business

IN enumerating those influences which are favorable to business at the moment, relief from political hindrance is entitled to be mentioned, for both national and international government influences are freer from hostile warnings than for a long time past. Congress is not in session, and will not convene for some months to come. When it does convene it is expected to take action for further relief in the matter of the country's burden of taxes, which in itself will be highly constructive. Politics in Europe does not show the same tranquil surface as in the United States, but foreign nations are succeeding in composing one difficult matter after another, so that less is being heard today than at any time since the Peace Treaty was signed, in 1919, of ruptured relations, dislocated commerce, and the cross purposes of mankind in general.

Not that every foreign obstacle in the way of trade progress and financial reconstruction is removed—far from it. What France and Germany are now going through shows how formidable are the obstacles which still bar the way to full peace-time recovery. But internationally much has been accomplished, and since the most woeful legacies of the war were found in the subsequent international misunderstandings and hostilities, it holds that as international understanding and good will are being restored, society as a whole is making progress in the direction of wiping out the most severe and painful scars of the war.

The Country's Volume of Laws

IT is a significant commentary on the relation of business and politics in this country that one reason frequently given for business hope is the expectation that Congress will not convene before next winter. For a long time the complaint of the average business man has been the interference of politics with business; laws, wise and unwise, have burdened him so that often he has not known which way to turn. A few days ago a judge of the New York Supreme Court made the statement that it would be a benefaction if we could have a legislative armistice for about five years, with no legislation but the making of necessary provisions for maintenance of government, tax reduction measures, and perhaps, the repeal of existing bad or unwise laws.

There can be no denial of the fact that the country has been deluged with laws; sixty-eight Congresses have passed a little more than fifty thousand acts for the nation, while that amount has been multiplied over and over again by the laws passed by the different state legislatures. In 1924 twenty-two thousand bills, limiting and binding business and industrial action, were introduced in the various American legislative bodies; it is calculated that since the foundation of the republic more laws have been put on our books, national and local, than were adopted by all the other nations of the world since the dawn of time. Elihu Root made the remark that the country has reached the point where it is impossible for any American lawyer to know the law. That being the case with the lawyer, what of the plain business man who is utterly appalled at the mountainous mass of federal and state legislation with which he has to contend?

The custom is to berate the country's politician for all the laws, particularly for those which are radical and which have disturbed business. The country has a host of radical politicians; still the question that must fairly present itself to the intelligent and patriotic business man is whether he himself is not to assume his share of blame for the situation that confronts him. Business men have their responsibility just as much as those who hold public office; a part of that responsibility is not to seek in legislation a correction of every economic ill that assails the nation, but to assume a sane direction of legislation that vitally affects the welfare of the nation's economic structure. Placing the blame wholly on politicians and assuming an active or implied hostility to the lawmakers is not in the best interests of industry.

Weight of Inheritance Taxes

ONE form of burdensome legislation in which the serious interest of business men is required is that which has taxed inheritances in a way never before dreamed of. Multiplicity of inheritance taxes has become a subject of much discussion; the topic was recently brought to the attention of the entire nation by President Coolidge, who denounced the present system of inheritance taxation as confiscatory and a menace to the country's capital.

The inheritance tax, called by some states transfer or estate tax, is a lien upon the right to receive property or upon the right to transfer property. The state imposes a tax on this privilege, which must be paid prior to the transfer, and which until payment constitutes a lien on the property transferred. Although inheritance taxes are not of recent origin, it has been only lately that the state legislatures, in their search for revenue, have so increased the rates as to bring about the present trying condition. Today forty-six states, and in addition the federal government, impose inheritance or estate taxes. This field has always been recognized as one belonging exclusively to the states in normal times, and only invaded by the United States government in time of war emergency. Only four times in its history has the federal government levied inheritance or estate taxes; in 1797, in 1862 and in 1898 such taxes were imposed only to be repealed when the war emergencies ended. The federal estate taxes that helped to meet the fiscal needs of the world war are still in existence.

Apart from the federal claim for death taxes, however, the heaviest burden is imposed by the individual states, which levy a tax on the entire net assets of a resident decedent, with the exception of real property in other states; and the majority of these states tax the property of even a non-resident decedent to the extent that they have jurisdiction over the same. In New York, an important amendment to the laws has lately been passed, which provides for an estate tax at rates varying up to ten per cent, in addition to the present inheritance tax, on estates of more than a million dollars, an outstanding feature of this amendment being that which requires the inclusion of foreign real estate in the valuation of the gross estate.

States levy taxes against non-residents in various manners. Over three-fourths of the states tax stocks of corporations incorporated under their laws, and owned by a non-resident decedent, even though the stock certificates are not within the state. For example, one of the large railroad companies is incorporated in six different states, each of which may impose a tax on the shares. Some states impose a tax on the stock of corporations owning property within the state. Some also impose a tax on bonds of corporations organized within the state and belonging to a non-resident decedent. The proceedings in the different states vary. In some it is merely necessary to file affidavits and schedules of assets and liabilities. In others it is necessary to have a probate proceeding. Rates of taxation differ, depending on the size of the estate, the relation of the legatee, and the amount of the legacy. The actual rates vary from nothing to forty per cent. It can readily be seen that the same property may be taxed several times and even in some cases the entire value of the property may be absorbed by these cumulative taxes. Thus we have multiplicity taxation.

After all, an estate tax is paid out of the capital of an estate, which is thus permanently impaired, and those who have given the subject most study point out that the inequity in the difference between death taxes and income taxes is found in the fact that though income taxes may be heavy during emergency times, they are paid annually out of current income and are paid only in proportion to income or profits which have accrued during the taxing period, while the other taxes bring about a diminution of capital assets.

Penalties of Death Taxes

A SHORT time ago a payment of inheritance taxes financially embarrassed the estates of two wealthy automobile manufacturers; the executors were forced to borrow heavily to raise funds to satisfy the taxes, as severe penalties would have been assessed had they not been paid when due. Chiefly because of inheritance taxes, it is said that the estate of a wealthy New York citizen shrank 32 per cent. Recently a Boston financier died leaving an estate of $3,000,000; approximately 23 per cent. of the estate was paid in inheritance taxes. Attention has been called to an estate of a prominent Chicago manufacturer, the beneficiaries of which were called upon to pay more in inheritance taxes than they received from the estate.

Burdensome taxes are applicable to small estates as well as large ones. The taxes of course are less, but the expense of the various tax proceedings is just as large. Recently there was an estate under administration totaling $36,000 in which it was necessary to obtain waivers from thirteen different states before the securities could be transferred.

Need for New Cooperation

ECONOMY in government through the insistence upon business methods in operation, so that taxes may be lowered, and revision of tax laws so that taxes may not so closely resemble confiscation, are a nation-wide necessity; it is to the end that legislators may appreciate this necessity that active and continuing interest on the part of business men should be aroused. The attention that is being given to the question of inheritance taxes and the constructive thought of business leaders to the end that reasonable changes be made in their imposition, is an example of how the business community can bestir itself.

Business chafes under the incubus of greatly overextended laws, to say nothing of administrative and extra-legal policies which often are regarded fully as injurious. Still, if the incubus is to be removed, cooperation in regard to laws and broad policies must develop, and the business community itself must shake off its lethargy in order to undertake a capable examination of whatever business legislation is hereafter proposed.

As a people we have come too much to believe that most of our evils can be corrected by legislation, and Congress and the state legislatures have been looked upon for some time as able to perform economic miracles by the simple expedient of passing laws. It is well said that most laws and most policies are in the last analysis not formed among politicians but among the people themselves, and that those which are unworthy are largely so because they are left in the hands of malcontents and incompetents. A sane and helpful attitude is one that thoughtful men need to adopt; in the face of that attitude there would be few statesmen or politicians who would be daring enough to refuse to business the same fair hearing and fair dealing that business is ready and willing to accord every other element in the country.

The world had been greatly upset in its political ideas since the war, but nothing would be sadder than to see our people, through failure to lend their help toward the enactment of sound laws, lose faith in popular government, and no greater damage could be done than to put business men in the light of antagonists to legislators. The United States has thrived and reached a commanding position under popular government, and its example and influence have helped to liberalize practically every other government in the world. Popular government means opportunity for all, and popular government will exist only on a frank discussion and interchange of ideas, and on a direct assumption, by business men capable of industrial and financial statesmanship, of a guidance in those affairs which deal with the nation's material welfare.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, June, 1925.

AN irregular decline in the course and scope of business has led to an unusual conflict of opinions, and anyone who will take the time and give himself the trouble can now, in a single day, listen to more opposing reports and predictions than he could have gathered in a whole week earlier in the year. The underlying forces of business at this time are not so very different from those of last winter—where there is a difference the variation is for the most part in the direction of improvement—yet the prevalence of doubt and uncertainty would make it appear that most of the factors which at the opening of the year were counted upon to support a trade boom had evaporated into thin air.

There are certain industries of the country which are not operating profitably; the price tendency of a number of commodities is downward; the attitude of buyers generally is to trade carefully and place a limit on advance orders. These are unfavorable indications. On the other hand there are indications whose significance is quite the opposite of unfavorable. The strong maintenance of factory employment, the large volume of railroad carloadings and the activity of mail order and chain-store sales show that the country, on the whole, is busy. The output of basic commodities, the current building activity, and the daily totals of bank clearings show the same thing. At least one industry, that of the manufacture of automobiles, reached in May a new high record of output.

Consumption of goods and buying power must be large to support the current level of industrial activity, and unless interfered with, that consumption and buying power may be counted upon to support at least a normal rate of output for some time to come. Business in general is far from bad; still, as one recent observer very well expressed it, many of us are looking back and longing for the excitement of the inflation era of a few years ago, failing to recognize that today we are living a far more satisfactory existence than we enjoyed during the war and post-war boom times. "We have developed a sort of complex with regard to our state of health," said this observer, "and as usual in such cases, have found a good many symptoms of ills that do not exist."

The Advantage of Business Restraint

BY nearly every present sign industry and trade are more than moderately active, and the future promises within reasonable limits the opportunity of going ahead at a fair rate of progress. Perhaps, however, it is just as well that a check has been imposed on the rate of expansion that was under way, and in the long run it is likely to be a matter of satisfaction rather than regret that a good deal of reserve is now being shown with regard to the outlook. Moderation, instead of threatening a formidable trade reaction, more than anything else insures a continuance of stable conditions. The extravagant hopes that ushered in the year could not under any circumstances have been fulfilled without having had production get further and further away from normal, thus placing an increasingly heavy responsibility on the country's buying power. Were industrial output to have continued, with rising prices, on the expanding scale of December and January, and were speculation to have carried along on the basis of the early part of the year, the country would surely enough have been carried into a boom, but in the end it would have been of that type of excited and unreasoning expansion which heretofore has always been followed by a collapse. Memory is still fresh of the unrestrained ardors of 1919 and 1920, but also it is not forgotten that very painful payments were made therefor.

Forces Which Support Optimism

IT is not unlikely, now that a setback has occurred, that further reductions will take place in the rate of operations in some lines. Whatever changes occur should be in the nature of stabilization, for in addition to the current buying power there are numerous forces favorably at work to sustain confidence and support an active trade turnover. Credit supplies are abundant, the banking position is strong, and money rates give no indication of imminent sharp variation from their present level. In addition, the West's agricultural situation, though far from being entirely corrected, is less unfavorable than it has been at any time since the collapse of prices in 1920. The pressing debts of many of the farmers have been reduced, and with grain prices considerably above the level to which they fell recently, and on a plane which shows a good margin over last year's average, the farmer should be in a position to buy through the year, unless a wholly unfortunate crop setback robs him of much of the reward of his year's work.

What is said of the West with reference to improvement can also be said of Europe, and though the precise course of events just now ahead in foreign trade is a matter of conjecture, it is not to be gainsaid that there is a very different background to the country's trade relations than for a number of years. England's resumption of gold payments, with sterling close to par; the steady progress in the administering of Germany's finances; the imminence of further international debt settlements; the final recognition by France of realities, and its move to adopt plans to meet those realities; such things contribute to strengthen the underpinning on which much of American prosperity depends.

As for politics at home, that situation is healthier than for a long time past; not only is general business relieved of a part of the weight of its taxes of other years, but for some time now it has been freed from one set of harassing doubts and fretting indecisions. Since confiscatory socialism received its rebuff at the November elections, and particularly since Congress went on its long holiday, business has had to take note of fewer threats designed to embitter the fruits of capital investment, industry and foresight.

Everything that is here set down of a favorable nature does not indicate, of course, that the industrial situation is in every major respect all that could be desired. Business as a whole is on a more substantial and firm basis than at any time since the recovery from the severe inflation of 1920 and 1921. While that is saying a great deal, it does not imply that after the present setback has run its course that the way will be clear a fresh forward sweep into new scales of activity. There are limits to the orderly expansion of industry, and those limits have a very definite relation to the legitimate needs of consumers. There are limits imposed by immediate needs, and there are also limits imposed by the high scale of prices, which holds down many purchases in the way that the farmers' purchases were held down last year and in the two years preceding. Prices are moving off somewhat, but without a series of wage reductions important price concessions are not likely, for the unit labor cost of manufacture is in many directions so high that manufacturing profits are limited, making competitive price reductions extremely difficult. High wages of course give wage earners a large purchasing power, which is something to consider; but in their effect elsewhere they severely curtail the consumption of those whose current income is not proportionately high.

The Ease in Money Rates

REFERENCE has been made to the country's abundance of credit supplies; rarely has anything like as strong a banking situation as that of the present been seen in the United States. Interest rates, which a few weeks ago showed a hardening tendency, have moved off and are the lowest for this season in nine years. As a matter of fact, they are down to the lowest borrowing levels for commercial funds in twenty-five years, save for last autumn and for short periods in 1908-1909 and 1915-1916.

Money is easy for a large variety of reasons, all of which have contributed to build up among the banks an unextended loaning ability and an immense reservoir of credit. Lack of demand has not, however, been a primary reason; in New York City the commercial loans of the banks are on a parity with a year ago, while, taking all loans and investments together, there is an increase of 15 per cent over last year. For the country as a whole the lending institutions have expanded their activities by upward of two billion dollars over a year ago, but even so they have had at their command, available for customers, a loaning power more than required by normal operations, for deposit increases have more than kept pace with the upward curve of loans. Many banks have utilized their funds increasingly in the investment market in order to earn a return thereon.

Easy money conditions are in prospect at least through the summer months. To change that prospect would require one or all of three things: (1) a considerable expansion in trade activity, leading to new commercial demands on the banks; (2) a price inflation; (3) a heavy flow of funds out of the country. Any one of these factors, carried far enough, or all of them together, would have the effect of lifting money rates, for the individual banks do not keep their surplus amounts of loanable funds lying idle in their vaults and unemployed, and any considerable new volume of demand would make it necessary to call old loans, liquidate a part of the investment issues they are now carrying, or resort to the central system's rediscounting facilities. Still, there is no sign of any immediate swelling of business activity or upward swing of commodity prices, and as for a flow of funds abroad, it would need a pronounced outward movement definitely to influence rates. More than half a billion of credit has been extended to Europe's borrowers since last fall, with upward of $200,000,000 gold shipped from our ports, yet it is seen that money rates have declined.

Contrast of This Country and Europe

IT is a matter of large satisfaction that the American banking system should be one of such manifest strength, and it is reassuring that legitimate business enterprise can look forward to a season in which it is not likely to be interfered with by adverse movements in the money market. At the same time, it must be recognized as one of the world's outstanding inconsistencies that our money rates should be so low at this time, while those of other nations are high. The present-day picture of the world provides many inconsistencies to show that the different nations are still out of balance by reason of the war, and one of them is assuredly found in the vast difference between the overflowing credit reservoirs of the Untied States and the low credit reservoirs of other nations. It can properly be said that capital and credit are abundant today only in this country. They are in short supply in every country other than our own. And in every other country the desire for the employment of capital and credit is so urgent that the most lucrative possible returns are offered to attract funds.

Expectation was that before this low money rates in the United States and high rates abroad would work their own cure by causing funds to flow to Europe for employment. Amounts running into the hundreds of millions have in fact gone abroad since the latter part of last year, as already shown, but large as these have been, the volume has not been sufficient really to limit the American supply or satisfy the foreign need, and the ordinary laws of supply and demand, operating internationally, have failed to restore an equilibrium.

When will this international disparity be corrected, and how? No positive statement is possible; it rests entirely with the progress that is made abroad in restoring credit. Much ground has been covered toward the rejuvenation of Europe, but unfortunately there are many obstacles still existing between foreign borrowers and the American money markets. Above all else confidence is the essential element of credit, and until confidence is completely established in those borrowers who are seeking most earnestly for funds, their offer of high rates of interest will fail to contribute to the establishment of an equilibrium in the money markets through international operations.

In time, no doubt, events will occur to take up the credit slack, but meanwhile the abundance of funds seeking employment in this country will naturally tend to continue the demand for dependable loans and investments, with the rate of return governed by the extent of that abundance. We have already seen the reflection of money market influences in the prices of investment bonds; we are seeing their reflection also in the movement of other groups of securities and in certain commodities. There is no reason of course why surplus funds should not continue to seek profitable advantage in new loans and investments, but super-abundance of money is a strong temptation to the promotion of doubtful booms, and if rates continue low for any length of time there will be laid a responsibility upon borrowers and lenders alike to recognize facts and distinguish them from the dangers which lurk in the mere search for the lucrative employment of funds. Experience offers many warning lessons along these lines. On one occasion after another in past history borrowers have branched out when funds were made available to them easily and at low cost; they over-extended and took over new lines, either by outright speculation or by moving from the business they understood into enterprises that appeared alluring but that were beyond their experience. Bred of over-confidence and supported by easy credit, that expansion became the forerunner of inflation and eventual collapse.

Warnings against unwholesome and speculative developments in business sound at present a bit untimely, for manufacturers, jobbers and retailers have still the memory of the costly lesson in over-expansion which they learned in 1920 and 1921, and are operating with caution. For them the opportunity to inflate has been present for some time, and for the most part they have resolutely refused to try the experiment. Still, it remains a fact that low money rates, with funds made readily available, offer a strong inducement to expansion, not alone in trade, but in investment and particularly in speculation, and the future will be made secure against the penalties of unwise expansion only as the restraint and patience of today continue to be exercised in days to come.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, July, 1925.

HALF of the year 1925 is finished; if the remaining half sustains the volume of business that has been seen thus far, the year as a whole will have fulfilled in measurable degree the hopeful predictions that were made before it began.

Many business men, with a critical eye on their sales, cost sheets and profits, will not subscribe to this statement. They are not satisfied with what they have accomplished, and are counting upon increased distribution and profits during the remainder of the year to justify what they individually had looked for when the year opened. In some lines of business disappointing progress thus far has been too evident to be disputed, and in others the margin of profit over cost has been undeniably small. For industry as a whole, however, the statement holds that business is fulfilling every reasonably hopeful expectation, and it is clear that many of the expressions of disappointment which are heard are not a reflection of true conditions so much as they are a reaction from expectations that were given too much impetus when the year began.

Six months ago much optimism was overdone, and as always is apt to be the case when not quickly justified, it has swung to pessimism. In spite of this, statistical comparisons indicate that business as a whole is going forward in more than normal volume. People are consuming more commodities than at any other time, with perhaps one or two exceptions. This does not mean certain classes of people; it means people altogether, especially the wage-earners. Manufacturing, though at the moment below the year's peak, and though lately quite irregular, is large. Distribution is good and there are apparently no heavy supplies of unsold price-breaking stocks. Commodity prices show stability.

With respect to industrial profits, these are not as liberal as they were in war-time activity, in the post-war boom, or in the recovery following the collapse of that boom, and herein is found much of the source of present-day disappointment. But profits are too often being judged comparatively. Some time must still elapse before business men are removed from the spell of the abnormal years through which they have lived, and are willing to characterize stability, active turnover and reasonable profits as "good" business. They cling to the memory of the war and post-war periods, when commodity prices were rapidly rising and when good business meant hectic buying, rapidly accumulating orders, and the widest possible spread between prices and costs. Abnormal conditions have given way to orderly trade, but for the average man the period of extraordinary profits is still used in making comparisons, to his own discomfort.

The Forces Underlying Business

BUSINESS is operating under different forces than before, particularly in view of the fact that there is now a surplus of plants and manufacturing equipment. The country's capacity to produce various kinds of goods is developed beyond the immediate requirements of consumption, and the maintenance of stable conditions therefore lies in having mills and factories produce, all together, no more than the markets can readily absorb.

But manufacturers after all are in business to produce, and so the country has come under the spell of intensive selling efforts, with competition keen. Merchandising methods have been developed and improved, and the ultimate consumer is now reached through a great variety of wholesale and retail organizations, chain stores, mail order houses and itinerant salesmen. More than ever business is a "selling" proposition, and there is a continuous and energetic effort to merchandise what is turned out. Sales managers everywhere conduct highly organized drives and instruct salesmen in the scientific way of attaining their objective; namely, increased distribution. They are seeking daily to create more and more of what is called a "consumer demand," and they are striving constantly to find effective methods of breaking down what is called "sales resistance." Millions of dollars are spent every week in newspaper and magazine advertising and in booklets and pamphlets to back up sales efforts; instalment systems of payments have been perfected that make credit readily available to purchasers who may be short of ready money.

Educating Markets to Buy

THE result of it all is that much consumer demand has been created that never otherwise would have come into existence, while sales resistance has regularly and scientifically been broken down. The American public, peculiarly responsive to high-power sales pressure and advertising methods, have bought much of what has been offered to it, and this raises the question whether the country as a whole has become educated to live beyond its means, and whether, because of overselling, the trade saturation point is being reached.

Popular views differ as to this. Statements are repeatedly being made that the American people now are buying cautiously, at the same time that criticisms are being leveled at wasteful extravagance. We hear on one hand that all classes of people are thrifty and that wage-earners and low salaried classes in particular are adding to their savings. We hear on the other hand that large numbers of people are living expensively, not only using their cash resources for current needs, but going into debt to pay for necessities of life, labor-saving appliances, education, means of pleasure and outright luxuries.

Sane Spending as Against Waste

WERE it true that people were buying so many goods of current consumption that their outgo was exceeding income, there would inevitably be a time of severe readjustment ahead. Continuous prosperity is not possible when individual wealth is spent before it is created. Still, conflicting views regarding this can be accepted only as representative of differences in points of view, or as reflecting differences in individuals and local conditions.

In situations that have "problem" aspects business and social observers seldom see alike. What to one may appear to be sensible spending to another often seems downright waste. Surface evidences are not always accurate of the real merit of an individual's mode of life. As a matter of fact, in habits and circumstances no two people and no two communities are ever alike. Whether they are to be seen on Broadway or on any Main Street, some people always live beyond their means while others always save. Differences in the purchasing power of different people and of different communities are pronounced. In various communities it is apparent that great sums of money are being spent for expensive clothes, finery, home decorations, automobiles and personal indulgence. Yet that is not apparent in all communities, and in the final analysis and taking the people of the country as a composite whole, it can be said that the American people are indisputably living within their means.

That is manifested at the moment by the widespread inclination to buy cautiously. It is very clearly manifested by the manner in which much of the country's surplus buying power, instead of being used for immediate needs or pleasure, is going into lasting employment. Growing savings deposits, a sustained demand for dependable securities and an increased investment in homes and like permanent things are all evidences of the general habit of thrift.

Amount of American Savings

CONTRARY to so many dire interpretations, ours are not an effete and thriftless people. The great majority are moving ahead steadily, not only to permanently higher living standards and wider individual opportunity, but also to greater financial independence. Thirty-nine million people in this country have savings of over twenty-two billion dollars in the mutual savings banks, postal savings banks and thrift departments of the commercial banks. The amount has increased two and a half times in the past ten years. Seventy-two million American lives are insured for fifty-seven billion dollars. The amount has increased nearly three times in the past ten years. Eight million people are members of building and loan associations whose assets are five billion dollars. The increase here has been three-fold in the past ten years. Eleven million people own their own homes, which means, counting these people with their families, that nearly half of the country's population is home owning. Four million farmers own their own farms.

The Buying Needs of a Large Nation

ADMITTEDLY, a great deal of money is currently spent by American people. The bulk of purchases, no matter how carefully the buying is conducted, is large; a population of more than 110,000,000 people, enjoying the world's highest standard of living, must have vast quantities of goods to satisfy their simplest needs. Of course, it is not a question of the simple needs that concerns those who see fit to comment unfavorably on the current course of affairs. Their view is that too many people have gone beyond satisfying simple needs, and what is particularly worthy of note about their view is that they place responsibility not on those people themselves, but on the manufacturers and merchants who, by their pressure of sales, by their advertising methods and by their instalment credits, have educated consumers to new needs in order that they might find increased distribution for their wares.

Effect of Individual Waste

GENERALIZING, it is a simple and easy thing to prove that the saturation point of trade is only a theoretical thing so long as the rank and file can more and more buy and pay for the goods they need and want. Nationally, we are a prosperous people. However, the nation is made of individuals, and we all know individuals who are wasteful. The spendthrift is in every community, and so far as wage-earners are concerned, we know many who are unhappily placed. Though they are receiving more dollars in their pay envelopes than ever before, they are in debt because of their desire for the immediate possession of what they otherwise could not have.

A common calculation is that 60 per cent of the average American income was formerly needed for rent and food, whereas these necessities now require nearer 75 per cent of the average income. This is an arbitrary calculation and is subject to much variation, but it suggests that for a great many wage-earners there is left today a much smaller percentage of their current income than formerly for things like clothing, health, education, recreation and luxuries, and for savings.

It is not to be overlooked that in most cases a balance of 25 per cent remaining from a pay envelope yields more in actual dollars than a balance of 40 per cent yielded in other years, yet prices and desires have increased rapidly with the years, and there has come a wider opportunity and urge than ever before for spending. For each suggestion to save there are today a score of suggestions to buy. Not only that, there are additional suggestions to those who are short of ready cash that they borrow to buy, and in view of comments which have been aroused because of this, it is worth while to inquire whether the facilities of instalment buying, which lately have multiplied, have served to weaken in any degree the country's economic structure.

Facilities for Instalment Buying

INSTALMENT buying has taken a definite place in the country's business system; in addition to the facilities otherwise available, there are estimated to be 1,400 finance companies in the country, whose purpose it is to support manufacturers and merchants who do not have sufficient credit resources of their own to finance their instalment sales.

Charge accounts, instalment opportunities, high-pressure salesmanship, well written advertising: all these make buying easy. One can readily appreciate how easy it is to buy when a purchase can be made with a small down payment, and on the so-much-a-month plan. The average individual who wants a thing will commit himself far more readily to twelve monthly instalments of $9 than to an outright cash payment of $100, especially if he is short of having $100.

The fulfilment of human desire is easily persuaded, and there can be no question regarding the frequent abuse of the opportunity offered by convenient credit terms, or regarding the lack of judgment displayed by numbers of people in estimating their future ability to pay. Domestic calamities have come out of instalment buying, especially where people engaged themselves to meet monthly payments in excess of their paying ability. A Boston merchant recently told of a workman in that city who got into difficulties because, with an income of $60 he had payments due every week of $72 for house, automobile, furniture, radio, etc. A young mechanic, receiving wages of $6 a day, was recently found to have engaged himself to pay $30 a month on a second-hand automobile, $30 a month on a suite of parlor furniture, and additional amounts on a piano, a gold watch, a baby carriage, and a diamond ring for his wife. The president of the International Typographical Union, in a recent report was quoted as follows:

> "Good wages and healthful working conditions cannot add greatly to the wage-earner's happiness if he persists in getting into debt. The root of the evil is the tremendous growth of the credit business, which in the last decade has raised a need for defense of the worker against insinuating salesmen, trained in selling psychology, abetted by wives jealous of their neighbors' display, who are constantly waiting to take the bread winner in a weak moment and unload something on him. That the worker is entitled to some of life's luxuries as well as its necessities is a fundamental tenet of trade unionism. But that he should be haggled into mortgaging his future earnings, deprived of independence and worried into an early grave, is decidedly unsound."

Proper and Improper Use of Credit

IMPROPER use of credit is bad for business, just as indiscriminate selling is bad. Credit is improperly used when it is used for something that will disappear quickly, possibly before it is paid for. It is improperly used when it places an unbearable burden on the man who affixes his name on the dotted line. This falls far short of saying, however, that credit, as such, is bad. Individual abuses of any system cannot be regarded as a condemnation of that system. Credit in its place is a decidedly constructive and proper thing. Credit has contributed enormously to national welfare and growth; it was largely on credit that the war was financed. Credit has contributed enormously to individual progress; the mortgaging of an individual's future for the opportunities of the present has in unnumbered instances made opportunities possible that led to happiness and fortune. People on the road to improving their economic condition are helped by credit; going into debt for something worth while has made savers out of many improvident persons, who were compelled to abandon extravagances in order to keep their payments up.

Sales on small down payments to people who eventually will be compelled to turn their purchases back because of default are bad for business, even though seemingly the seller might profit through retaining what has been paid in and through reselling the goods. Still, the instalment system of retail credit at base is sound, and is contributing to individual welfare where the circumstances and terms make the assurance reasonably certain that the indebtedness is a temporary one, and will within a reasonable time be liquidated.

The undertaking of instalment credits, like every other responsible business, must be one of care and good management. Success is dependent almost entirely upon the individual organization and upon the spirit and motives of those in charge of credit extension. The purpose of simply securing exorbitant rates of interest has frequently enough been condemned; the banking superintendent of New York, in an address before the State bankers' convention at Ithaca on June 23, characterized some finance companies that had come to his attention as bootleg banks, and gave warning of the hazards involved to themselves and the public at large in their operation. Methods of operation are still to be standardized, costs of financing are to be adjusted and, where exorbitant, are to be reduced; codes of practice are to be encouraged, and, most of all, definite restraints are to be exercised. These things will work themselves out in time, and in doing so they will, if properly directed, strengthen the country's structure, and not weaken it.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

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UNIVERSITY OF ILLINOIS

New York, August, 1925.

MIDSUMMER finds business throughout the United States generally active and prosperous, and the prevailing sentiment is one of more cheerful confidence regarding the outlook than at any time in a number of months. The promise of an unusually large corn crop and a moderately good wheat crop, an increased upward turn in the prices of many commodities, and a considerable show of interest on the part of buyers with fall commitments in hand, are responsible for this sentiment. Their effect has been enhanced by a favorable credit situation, by repeated promises that tax burdens on business are to be lowered again in the next congress, and by reports of developments favorable to stabilization abroad.

Railroad traffic, bank clearings, steel output and other familiar barometers show that trade is moving forward at a good pace, though of course there are a number of cross currents and irregularities. There is now a movement toward heavier inventories of raw and finished materials, in expectation of an autumn inquiry for goods of all kinds, but as yet the movement has shown no signs of going too fast. Throughout industry the temptation is strong at all times to overproduce and force sales, for since labor and manufacturing costs are high, and since competition is keen, plant managers find that best economy is gained by running plants at as full a capacity as possible. As a rule, however, the temptation to overproduce has been successfully resisted thus far in light of the admonition, constantly given, that output should be restricted in accordance with the cautious attitude of buyers.

In view of actual and hoped-for business developments, there are many inquiries as to the probable course of interest rates. Credit supplies have been abundant for a long time, and interest rates lately were near the lowest borrowing level for commercial funds in many years. Rates have been low for a large variety of reasons, but recent indications of an advance to higher levels have been taken to mean that the money situation is at last emerging from its so-called "easy" stage. Business having taken on a more confident tone, there has developed a demand for commercial credits, and in addition crop movements have led to a call for funds to finance shipments from farms to market.

Is the Money Situation Changing?

UP TO now, with merchandise inventories generally low, and with the western banking situation much stronger than in 1924, business and agriculture have run along without making extraordinary demands for banking accommodations. Employment of bank funds has increased, it is true, but this has not been due primarily to commercial operations. If the movement toward heavier inventories broadens during the crop-moving season, and if at the same time requirements in the various speculative markets continue large, a rise in borrowing rates beyond their present level would be quite a logical consequence.

That the country as a whole is entering a period of firmer money rates, at least for a few months, would seem to be a view warranted by the current course of events. It is still too early, however, to say whether a seasonal increase of such importance is to occur as to lift rates into a definitely advancing scale. Additional loans naturally will increase the demand for bank funds beyond their present amount, but so far as the effect on rates is concerned, it is to be kept in mind that credit supplies are large, and the commercial banks have considerable ability to extend themselves beyond what is required by so-called normal operations. Their total loans and investments are in greater volume, taking the country as a whole, than ever before, but that is because funds not required for commercial operations have sought temporary employment in other directions, and have found their way into the easiest and most profitable available channels.

Where Banking Strength Lies

MANY banks have built up large investment accounts. Loans against stock exchange and other collateral have increased. Not a few banks have placed funds in the London market. Any of these assets or all might be liquidated to furnish funds to finance a trade expansion of more than seasonal magnitude, should it occur, without making rediscounting with the Federal Reserve Banks necessary. The banks now are such large holders of securities, and such large lenders against the collateral of securities, that the situation is different, at least in degree, than at any time in the past. Banks as a rule are in liquid condition notwithstanding the broadened platform of their activities, and the money situation has been stabilized so well over a period of time that even though rates now emerge from their easy period, stable conditions may be expected to continue.

In addition to the strength of the individual banks themselves, it is to be noted that the strength of the Federal Reserve System adds much to making the credit situation a comfortable one. The reserve ratio is only a little below the year's highest record, and though total gold holdings of $2,800,000,000 are $360,000,000 short of the amount reported at this time a year ago, the decrease is not especially significant, for efforts have been made to keep gold in circulation throughout the country at large.

The country's total gold supply is 2½ times more than before the war, and though the scope of the country's credit activities is greater than ever, much of this gold is not needed. An illustration of the magnitude of the banking expansion that has taken place is found in a comparison which shows that over a period of ten years loans and investments of American banks, exclusive of the Federal Reserve Banks, have grown from 22 billion to nearly 50 billion dollars. Partly this has been due to the higher price levels, but to a large extent the increase represents accommodations granted to growing industries. Loans and investments of American banks are about four times the volume of the bank credit of Great Britain, and almost as large as the aggregate of all other European countries. The banks have been called upon to finance a steady expansion required by the country's rate of growth, yet the manner in which they have managed not only to keep abreast of demands but ahead of them, is demonstrated by the ease of credit conditions at this time, by the relatively small demand for rediscounts, and by the fact that both short-term and long-term loans lately, at the peak of the banking expansion, showed an average rate of interest lower than in a number of years.

Loans Outside the Country

THERE is an aspect of the money situation that in time may be the determining equation of the money markets; it is that of the international relations. For some time the United States having had an abundance of money without a pressing demand, and Europe being in such urgent need of working funds that it offered rates of interest measured by the urgency of this need, the transfer of American capital and credit to Europe, and the dependence of European markets on American help, have supplied a profitable outlet for funds. From some quarters, because the money situation is now firmer, comment is made that the country has gone a bit far in lending itself to the financing of foreign requirements; this comment dwells especially on the net shrinkage of $175,000,000 which has taken place in the country's gold holdings, through exports, since last winter.

That domestic business has not been hurt by any phase of the current banking situation is fairly understood; also it is fairly understood that there is little occasion for worry about the loss of a twenty-fifth part of the country's total gold supply. There is a large surplus of gold in the country beyond our present needs, and offsetting any ill-considered criticisms, the statements are appearing every day from responsible authorities that other countries must have gold if they are to be brought back, as we desire them to be, to the gold standard. Countries which return to that standard must have gold sufficient for the purpose in their vaults, and as the world's chief source of gold, other than the mines, is the piled-up supplies of the United States, it holds that other countries are compelled to turn here for what they need.

More than half the world's present visible supply of gold, part of which came out of foreign vaults because of the war, is in this country, and both our own self-interest and the need of other countries prompt a renewal of transfers, which are now stopped, back again across the ocean. This does not advocate any actual forcing of gold out of the country, or its shipment to points where it will fail in the purpose of a careful and sound restoration of currency redeemability. Without adding to them, there are technical difficulties enough in international finance. Each month finds foreign indebtedness to us built still higher because of merchandise exports and credit advances alike, so that loans leading to hasty and ill-considered gold shipments would serve in the end only to add difficulties instead of removing them.

Gold which goes out must go where its use will be unquestioned; it is well said that when we part with gold we want it to stay where it is sent, in order that we may ourselves get the benefit of trading with those countries whose price levels are made relatively stable thereby.

Contributing to World Recovery

INSOFAR as we are in a position to contribute to a firm restoration of the world's gold basis we can afford to part with our unnecessary metal surplus, for in the long run a sound balancing of international banking and trade relations means as much to our national prosperity as any other single thing. Of all the economic difficulties of the past ten years, none failed to impress deeply upon human consciousness the evils of every substitute for gold, and it is accepted by those who have given the matter constructive thought that more than all else, achievement of a general return to the gold standard would speed peace-time trade restoration. Through every currency and credit experiment since the outbreak of the war nothing equal to the gold standard presented itself, and today gold as a basic currency shows itself at every turn as the ultimate preference of men.

After all, this is in keeping with the lessons of history. From early civilization the story of finance and banking has been that of a long struggle toward a definite and acceptable measure which would represent human labor in a form whereby its productivity would be preserved or readily exchanged. Out of that struggle, long before our time, the gold standard emerged, and anyone familiar with the story of the past can understand why gold is today being established again as the standard of value and exchange. Gold is accepted universally without artificial measures, and as one nation after another is drawn back to its standard, it is because of the shortcomings and evils of other money, and because of the stability of gold.

Gold's International Importance

IT IS especially in light of international relations of the chief trading countries of Europe that their return to gold, and their need for at least a part of our excess supply, commands present attention. The whole world knows exactly what is meant by the convertibility of a paper dollar into a fixed weight of gold; so, like in the United States, the chief purpose of building up reserves abroad is to provide adequately for the convertibility of paper money, and for the recognition of that convertibility on the part not only of people within each country, but also on the part of outsiders who sell goods there and count upon having their drafts honored in gold values. What means so much in trade is that the whole world accepts gold in settlement of trade balances. But it also demands gold, and the test of the standard comes as exporters of other countries, who have shipped goods, present their drafts for payment, and demand gold value therefor. Banknotes and other paper obligations given in trade are considered to be worth their face value in gold only when they can be freely exchanged for the metal, and it is toward achieving a position where complete freedom of exchange is possible that finance is now moving.

Restoration of the gold standard does not mean that Europe has sufficient capital; how much the different countries will have to accumulate to fix themselves firmly on a gold basis, or how much the United States ultimately will ship, remains to be disclosed. It will depend on the foreign trade balances, the volume of business, the habits of people, and the degree of confidence in the ability of each country to maintain its circulation of paper on a parity with gold. To be sure, the central banks will not be obliged to keep on hand bullion enough to satisfy all the claims of those who, as holders of paper, have a legal right to demand gold. Custom has made it plain that no country on an assured, convertible basis, needs such vast reserves. To establish a gold standard, enough bullion is needed to meet actual, legal demands for gold, but the maximum demand for conversion that is theoretically possible never actually appears. Still, bullion enough must be on hand in the central banks not only to fix confidence but to provide an anchor capable of preventing any drift back into the sea of inconvertible paper.

Great Britain and Germany

IN THE case of Great Britain and Germany alike, the achievement of the goal of a stable standard has been against odds which a year or two ago would have been thought insurmountable. In particular, what marks the return of the pound sterling to its gold parity as such an outstanding achievement of the year is the fact that it has been in the face of an unusually large balance of merchandise imports. Had Great Britain's merchandise exports recently been so very great that they were running in excess of imports, thereby building up a powerful balance of trade, it would readily be concluded that the reason for the strength of sterling rates lay there; that demand for drafts to make remittances for settlement of accounts in London was responsible for what was going on. Money has not been owing to London on current trade account, however; on the contrary, London has been called upon to a greater extent than ever before, except in war time, to make remittances to settle obligations for imported merchandise. For the current year to date, seven months, Great Britain's visible excess of merchandise imports over exports has run not far short of £250,000,000, as compared with a similar excess for the full year of 1924 of £355,000,000. In 1923 the balance of merchandise imports over exports was £212,000,000 and in the preceding year it was £180,000,000.

These returns indicate an enormous growth of internal consumption on the part of the British public, hence what is going on outside of merchandise transactions must be determining the visible strength of sterling and the firm maintenance of the recently gained gold standard. Great Britain's road toward full resumption is not an easy one, though fortunately its international position is not represented by the single figure of merchandise trade balance; the so-called invisible trade items like interests on outside investments, freights, services, tourist expenditures, insurance, etc., offset a good deal of the unfavorable total. Responsible estimates place Great Britain's capital investment abroad at £3,000,000,000, notwithstanding the sacrifices that were made for carrying on the war.

It is what has been accomplished thus far to bring sounder conditions to Europe that shows how much can be accomplished in the future. In planning new accomplishments Europe continues, however, to look for much of its support here, and even though money rates may become somewhat firmer in the American markets, a reasonable prediction is that our co-operation with Europe will be found in the direction of the flow of capital funds and credit, as well as in the movements of gold reserves. What goes on in the months that are ahead will manifest increasingly the position which this country has assumed in giving direction and help in restoring a substantial basis for the world's commercial financing.

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OF THE CITY OF NEW YORK

New York, September, 1925.

EVEN when business throughout the United States is on an expanding scale, as it is in the beginning of every autumn, overproduction, or the fear of it, is a recurring feature of the country's industrial life. The underlying causes go far back, but they have been added to in recent years. Because of the war there came from every part of the world an abnormal demand for American goods, which induced the investment of an immense amount of money in permanent productive equipment. At the close of the war there was widespread alarm over the degree in which the country had become overbuilt in war plants, but the post-war boom induced further enlargement, and though the deflation of 1920 brought a temporary setback in numerous directions, there has gone on a continuing program of expansion, financed alike out of the savings of the people and by means of credit.

The country as a whole has today the greatest industrial capacity of all time, and it is because of this fact that at every variation in business activity the subject of surplus producing power is brought forward to trouble us. At one season or another special attention is directed, among the manufacturing trades, to the capacity for the production of cotton and woolen textiles, of steel, automobiles, leather, paper, glass, farm implements and other finished products. American capital is to a very large degree invested in these trades. Great numbers of workmen depend for their livelihood on their continued active operation. Depression in the textile industry, only occasionally relieved, has long been attributed to the number of textile plants in operation, which were constructed at abnormal cost in the time of heavy inflation. The country's facilities for making 5,000,000 automobiles annually is contrasted with a reasonable demand for 4,000,000. Estimates which name 500,000,000 pairs of shoes as the country's possible production are set against a demand for 350,000,000 pairs. The country's full capacity to produce 60,000,000 tons of steel ingots a year is contrasted with the ability to use less than 50,000,000 tons.

The National Problem of Production

IT is not possible to come to close grips with so vast a national problem as that of output and distribution, for all the factors that enter into the economic life of 110,000,000 people are vitally involved. As a matter of fact, though the present situation is in no small measure an outcome of the war, there has not been a time in the last quarter of a century when some particular American industry, or group of industries, has not been open to the charge of being overbuilt. Yet the value of American output has grown in this time from an annual rate of twelve billion dollars to a rate of more than fifty billion.

Back of this increase has been a spirit of aggressive expansion throughout the nation. Energy, science, industrial genius and mechanical art, together with the constant process of cultivating new markets and developing old ones, have combined to gain enormous advantages. Throughout the experience of American business, therefore, an unbalanced capacity in one year has often been found short of requirements in the year following. Excess capacity has proved in time to be no excess at all, and even while it lasted, it was an emergency capacity which came into use when demand passed a certain point. It prevented runaway price advances, and often gave a far-seeing producer the upper hand in the field of competition. Production of even ten years ago would be wholly inadequate for the country's present maintenance.

The United States has benefited more than it has suffered because of excess capacity; in the last analysis it is that excess that has enabled the country to grow. Still, from the practical view of the moment, the question is important whether our manufacturing plants, because of rapid enlargement of their capacity during recent years, are so far overbuilt that their full output cannot be marketed unless consumption increases substantially beyond present limits. The question is occasionally disposed of by offering the assurance that by the exercise of care and patience the condition of oversupply will be corrected. The growth in the country's population and consuming power, the return of the agricultural states to liberal purchasing, and the recovery of foreign markets are given as reasons for a gradual overtaking of the country's plant capacity.

If Expansion Were to be Checked

REMEDIES of care and patience imply a check on new industrial expansion for some time, however, and those remedies promptly suggest an important series of allied problems to confront not only business, but finance as well. If expansion is to be held in check until markets increase their buying power, it must follow that business opportunities at home will contract, and it must follow further that investment opportunities will diminish, perhaps compelling American investors, like those of England in the past, to go afield in search of safe and profitable outlet for their savings.

It is interesting to consider the question of business expansion first. Up to now home markets have constantly increased their requirements, the pace being accelerated by rising living standards, increasing wages and widespread distribution of wealth. Modern sales and advertising methods, together with new facilities of production, transportation and distribution, have stimulated the increase. Domestic buying of goods has grown as the prosperity of wage earners has grown. All this is too apparent to require demonstration, but even so the growth of home demand has not caught up with the country's ability to produce. For many commodities, finished as well as raw, foreign markets are counted upon to take a considerable percentage, and every day there are sent out of our ports, to various corners of the earth, goods of American mill and factory output, as well as products like wheat, cotton, meat, copper, petroleum and other raw materials.

Continuing American prosperity depends, then, not alone on domestic but also on foreign distribution. Finished goods are sold in world markets largely in world competition. American producers in the past have overcome outside competition and in time to come will go on doing so, but a changing condition is expected to confront them as Europe regains lost ground. It is not alone the factories of the United States that depend on export outlets; prosperity elsewhere also depends on widespread distribution, and in every large country, in addition to our own, the overwhelming desire exists for exports. Germany's search for outside markets is spurred by the necessity of making reparation payments. England's host of unemployed, and her obligations in connection with gold resumption, furnish powerful reasons for developing her trade. France must have enlarging exports to help her international position.

For country after country the survey leads to very much the same conclusion; each is seeking energetically to increase its production, and each is seeking to have each other absorb its surplus goods. Each country that already has an export balance feels that by enlarging that balance its economic position will be made stronger. Each country that is importing more than it ships is seeking to reverse the process, because it feels that otherwise it will lose ground. All countries of course cannot be exporters on balance. Some must be importers. Yet there is everywhere a pressure for export balances, and trade faces the prospect of competition that will be made increasingly intense by reason of the vast amounts of international debts which are now outstanding. The day is here when foreign debtors are seeking to begin payments against their obligations through shipping goods which will provide the means of payment.

Is it not clear from daily discussions how far this has a bearing on our home affairs? The statement is frequently made that Europe, under the compulsion to work off its debts, is on the threshold of a new era of expansion. The statement is also made that the United States, due to the rush of its previous expansion, and due also to the world's economic changes, must take cognizance of the position in which it finds itself as a creditor nation, not only with reference to surplus plants and equipment, but also with reference to comparative living scales, labor supplies, wages and prices. Wages and prices of every other country are lower than those of the United States. Standards of living are below our own in every other country, and cheap labor and cheap materials abroad operate as vital factors in trade. Because of a genius for mass production, and because of superior transportation and salesmanship, no one doubts the American ability to move ahead in the world's markets. At the same time, a large part of the world is under the urgent need of exporting, even to the point of shipping out capital goods, and so trade ramifications are more involved today than ever before.

The Effect of Financial Dominance

OUR new position in finance plays a part in the industrial destiny. Curious as it may seem, our uncommon financial strength operates to oppose industrial expansion, at least so far as its international aspects are concerned. The United States occupies a position as the world's chief creditor nation, to which from other nations several hundreds of millions of dollars are due yearly in interest alone. At the same time, it occupies a position as the world's chief dispenser of credit. Producing more than it currently consumes, and adding greatly to its capital accumulation every year through the people's savings, its financial strength is beyond comparison. No other nation ever before was at one and the same time the world's greatest producer of goods, exporter, reservoir of capital, and dispenser of credit. Our place is one of dominant power.

That power, however, in relation to other nations, cannot go on forever multiplying in the present manner. No single nation can always go on exporting goods, capital and credit together. Ultimately buyers must pay for what they buy with something beside notes, and if they seek to send what the sellers also produce, their competition must cut into the sellers' output. The United States occupies an altogether unique position in world affairs, and changes are bound to come in time. These changes as yet do not give signs of their direction, so that for the present business men are operating without seeking to delve too deeply into the problems of the longer future, and exports of American goods go on exceeding imports in large volume, while American investments in foreign security issues continue to be made.

Nevertheless, what of those problems of the longer future? How long can this nation maintain the record that is being set? Can it continue to be prosperous out of proportion to the prosperity of other nations? Will their return to prosperity result in adversity here? Though the answers to these questions are hidden, it is at least interesting to conjecture what the underlying problems signify. If they mean that our progress has been too rapid, they must also mean that readjustment is ahead. If they mean that this is no longer a country with greater opportunities for development and profit than any other, they must mean that in the future we shall not be able soundly to go on with the extension of our industrial or transportation equipment. If they mean that construction must stop, they must suggest the need for a continuing flow of capital and credit out of the country in search of safe and profitable employment.

Broadly, the questions of our longer future answer themselves. Whatever changes occur, there need be no misgivings as to our ultimate destiny; there is ahead no permanent setback for the United States. Our problems, after all, are problems of economic strength, not weakness, and it is that difference which determines everything. The United States has scarcely one-fifteenth of the population of the world, yet it produces the bulk of some of the world's essential commodities. It has a producing and buying power greater than that of a combination of other nations, and with leadership developed alike in wealth, agriculture, industry, transportation and finance, it would be an absurdity to say that opportunity in this country is exhausted.

And in the final analysis, all that is said about American industries being just now overbuilt refers to no permanent condition. The country has indeed an enormous productivity capacity, one that expanded on a rapid scale during the war and that has continued to expand. In a number of particular things output is too great for current needs, and with foreign producers making ready to return to the field, competition in the time to come will be keen. We may have to make shifts in our industrial structure as a result of changing currents in world trade and as a result of competition for other countries. Better and cheaper processes may have to be found in some industries; in others, readjustment may be ahead that will prove painful. Elimination or absorption will occur of plants which cannot meet competition. But these things will occur only in special cases, and will represent a passing phase. The problem is one less of overproduction than unbalanced production, and correction of this will reestablish those trades which have gotten out of step and overdone their part.

Growth of Home Markets

CONSIDERING the problem of industry, it is to be kept in mind that as a general thing we can never produce too much of anything which contributes to life and happiness. The desires of consumers are insatiable; the use of goods, when it is limited at all, is limited by buying power. So then, apart entirely from the opportunities that are to come in outside markets as their buying power grows, the big fact stands out that our home markets, as they expand, will continue after all to be those of the greatest opportunity. It is impossible for any man who sees things in their proper proportions and relations to mistake this fact. Developed wealth and opportunity in the United States are greater than those of all the countries of continental Europe combined. The United States is a young nation; its buying power is increasing all the time. The explanation is that every year brings more wealth to divide. Population is growing at the rate of 1,500,000 every year. This means not only that there are so many people to support; it means that as the objective is attained of adding more to human happiness, business must have more industrial output than it had before, and more capital to provide that output.

There is much room for further expansion here and there is a wide field for capital investment. Funds for the present are being attracted abroad, but that does not mean that Europe, an old continent, is to supersede this, a new continent, as the land of greatest opportunity. This country is geared up to an enormous consumptive habit, and has attained its position through the process of producing more as its demands increased. "The American genius for production," said President Coolidge recently, "coupled with our great and varied natural resources, and considered in relation to the unparalleled requirements of our home markets, constitute the assurance of a continuing industrial advancement, the end of which we can neither estimate nor foresee."

We can only imagine the expansion that is ahead, but we are entitled to judge the future by the past, and the past twenty years in this country have given us machine production, electric power, the automobile, the gas engine, chemical processes, the x-ray, the motion picture, the radio and a thousand devices that have widened the opportunities of the people, absorbed the fruits of industry and employed capital in ways that were not seen in advance. Like the other industries which have contributed to national welfare for generations past, new industries are making of themselves a primary need. Luxuries of ten years ago are necessities today. Modes of life have changed completely with new modes of travel, new modes of thought and new mechanical inventions.

Changes impelled by our relationship to other markets may be ahead, and adjustments to varying conditions may for a while be necessary. Yet the opportunities of this country are such that as time goes on production is bound to increase while buying power expands, lifting to higher levels the standards of our national life.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

OCT 6 19

New York, October, 1925.

EVERYTHING considered, the present business situation throughout the country is highly satisfactory. Activity in recent weeks has been steadily increasing, and most signs point to continued, if moderate, improvement. As reflected by car loadings, the railroads have recently been carrying more merchandise than ever before in their history, in spite of the fact that the seasonal peak of traffic does not usually come until well into October. The automobile trade has been doing a remarkable business for this season, there is a huge volume of building operations going on, recovery in the steel centers continues, an abundance of funds is still seeking the investment market, and purchasing power both in the farming and industrial centers is near its highest levels.

It is true that merchants are following the policy of buying mainly in relatively small lots, for immediate and nearby needs, but this has not served to reduce the aggregate volume of business. The policy, in fact, serves as a highly stabilizing influence, not only by insuring business men against substantial injury by a decline in commodity prices, but by preventing the inflation of prices which would make such a decline possible.

The final outcome of the year's crops is still not decided. The present prospect is that the cotton and corn crops will be large, although the wheat yield will be the smallest since 1917. There does not seem any likelihood of more than a seasonal firming in money rates. The most prominent of the few clouds in the business sky is the still unsettled anthracite strike.

Contrast With Europe

THE contrast repeatedly presents itself between conditions in the United States and conditions abroad. Economic resources, volume of output and stability of trade; working conditions, rates of pay and opportunities of labor; comforts of the masses; relations of government and business; weight of taxation; strength of banking systems; availability of credit; here are only a few headings which mark the condition of the United States as happier by a wide margin than that of any other country or group of countries.

Trade and financial conditions in the United States leave little on which to base pessimistic complaint; indeed, when set against similar conditions elsewhere, the contrast gives reason alike for thankfulness and optimism. Nearly seven years have gone since the war's active hostilities ended, yet peace-time industry in Europe is still in its "coming back" phase. The war's scars are far short of being healed, and for nearly every country the road is still a long one which is to be traversed before that degree of prosperity is regained which was known in the past.

Take England for example. For that country 1,300,000 people are officially reported out of work, and the policy of doles and unemployment relief, adopted at the close of the war and continued without interruption ever since, takes in round figures $10,000,000 every week from the pockets of those who work to be turned over to those who do nothing. England's burden of expenses is heavy; moreover, she is paying her outside creditors promptly while receiving nothing from her national debtors, and taxes, in relation to the capacity to pay, are painfully high, especially as trade, by every reckoning, is short of what it should be. An island, England has always had the name of being the world's standard trader, with shipping her greatest treasure and with commerce securing advantages which never could have been obtained if her people had been shut up within themselves. England's export markets have been curtailed, and so it holds that a considerable part of her labor can regain profitable employment only as their resources and skill are again called into active use by export trade revival.

England's economic problems are different only in degree from those of continental Europe; for all the other countries those problems involve production, trade and credit, and all rest heavily on one another. France, Germany and Italy have no great unemployment at the moment, but they have other symptoms of post-war difficulties. France and Italy await currency stabilization and a complete adjustment of their state finances; Germany seeks to augment her supply of working capital and commercial credit. For Germany as well as for England export trade holds the key to prosperity, and wholly apart from reparation requirements, tens of thousands of German workmen and scores of plants are dependent for their return to full prosperity on the ultimate exploitation of oversea trade.

Conditions In This Country Good

THE contrast is a marked one, then, between other countries and the United States, for our labor is actively and profitably employed, our exports are exceeding imports, and credit is available at reasonable rates for every legitimate requirement. Still, it does not do to draw too dark a picture of outside conditions, with an eye only to Europe's difficulties. After all, what is impressive abroad is not alone the distance that is to be covered to make up the war's losses, but also the constructive way in which business has already met and solved many of the reconstruction problems, and the way in which it faces those which remain to be solved.

It is by looking back occasionally over the road Europe has come that one gains a correct idea as to how far in reality it has progressed. A recent British review very well described the situation thus:

> "We find in the present state of affairs a reminder of the experience of a climber on scaling a virgin peak. He surmounts with toil and patience what he thought to be his most forbidding obstacle, only to find another, equally forbidding, barring his way. And in his disappointment at the new task he momentarily forgets the task achieved. Yet it is just as essential a fact that he has made one great step upward as that he is momentarily checked from further progress."

Europe's Production Increases

THE step upward for Europe, taking the continent as a whole, is that its production, though short of its needs, is larger than at any time since peace was restored. Trade has improved, notwithstanding the fact that many of the big markets of Russia and southeastern Europe are still virtually cut off. Capital and credit have grown in supply, due to advances from the United States as well as to the savings of the people, which, small as they are in some countries, have begun again to find their way into the banks. England's currency is reestablished on a gold basis; her budget is balanced. Germany, freed from currency chaos and debt controversy, has left the welter of inflation behind, and is operating under a condition of stable finance and in recognition of her reparation obligations. France, industrious and thrifty, has built up an export trade that runs considerably beyond imports, and, further, has come to an acceptance of certain economic realities, and is in the way to correcting old basic faults. A number of vexing international debt difficulties have been removed from current negotiation; others are in the way of being adjusted.

All these constructive developments constitute Europe's step upward; underlying them all, overshadowing them, and making each of them possible, is the gradual return of a normal and rational state of mind to the people. The true value of this cannot be over-emphasized; without question it has governed every forward step that has thus far been taken in Europe.

Looking back, it will be recalled to what extent events succeeding the war failed at once to turn the flow of life which from 1914 to 1918 had been in the wrong direction. War having been one kind of disorder, peace for a long time proved to be another. Peace failed at once to destroy the war hate, and for a long time failed as well to restore the good-will and understanding which among nations is essential to the realities of peace. It can now be seen to what extent the absence of cooperation and conciliation contributed to the trade and financial breakdowns of the early years of the peace period. Nations which were allies in the prosecution of the war ceased after 1919 to submerge themselves to one another for the benefit of the whole, and group thought from then on responded to individual thought as each individual came to center his efforts less on the welfare of others and more on the welfare of his own nation, his own neighborhood, his own family, his own care. Those who won the war together having sought to enjoy the fruits of victory apart, it followed that agitation, experiment, controversy and sinister intervention were the lot of Europe so long as the spirit of self-service and national consciousness drew people apart.

Europe's suffering can be laid in no small part to its peace-time lack of vision and tolerance alike. Unity and firm leadership would not of course have wiped out all the scars of the war; they were too deep for that. The war took ten million lives, destroyed industrial equipment, scattered wealth accumulation and changed people, frontiers, politics, trade and finance. Many of the important events which have led to recovery could not have happened earlier, because certain visible obstacles had to be removed first. Certain events were made possible only by certain others which preceded them; those in turn were made possible only by the slow and patient rebuilding of the business structure that was broken down by the war and the post-war mistakes.

Unified Effort Result of Dawes Plan

BUT recent progress shows the benefit of unified effort. To quote a French statesman, Europe's destiny changed horses in May, 1924, when the Dawes Plan replaced the political control of the reparations question, and since then the moral change among those who lost the war as well as those who won it, has been one whose practical consequences have been direct and tangible.

It is that change which has made other changes possible. Old flames of prejudice, suspicion and selfish materialism may not be wholly quenched, but they have died down, with inevitably logical economic results. People appear to have turned away from embittered animosities and are addressing themselves to the future in a constructive spirit. Simply the belief that there is no prospect of war in Europe for years to come—a belief based on the fact that people are heartily sick of war and on the further fact that there is no money for it—has had a tonic effect on industrial and trade relations, and people who not long ago were steeped in an atmosphere of hostility are dealing with one another again.

All this has a bearing on the welfare of the United States even though people very often, in discussing the forces which govern our business destiny, give only passing notice to what goes on beyond the country's immediate horizon. The close absorption in the course of events in our own industry and finance and the great volume of strictly domestic business that is transacted within the borders of the United States—upward of 90 per cent of American output is for the purpose of American consumption—account in part for this. What also accounts for it is the traditional American doctrine of individualism, a belief in independence from outside political and economic influence.

Whatever may be the extent of our self-absorption, however, or the reason therefor, it still remains that every step taken abroad to recover from the war has its very practical interest for us, and has its part as well in determining the course of our future prosperity. There is no avoiding the fact that the world has been made over by science, trade, industry and finance into a great unit; for ourselves, the conclusions to be drawn from this fact are the more definite by reason of the strength that came to us during the war, and what has been added to since. Looking broadly at our relations with the outside world, it is not simply a matter of international politics that concerns us; the welfare of people abroad touches our labor conditions, our surplus industrial, agricultural and mining output, and our capital investment and credit together.

Events of the past ten years have brought the business of most of the nations to our door, and have translated a part of the burden of others enormously to our advantage. A trade balance in our favor by a large margin, an unexampled reserve of gold, a flow of securities in upon us, and a constantly enlarging volume of foreign credit all testify to that. The net effect on our wealth of everything of an international nature that has transpired has been increasingly favorable. In our trade relations each succeeding year has strengthened us in a material sense. We have enlarged our productive capacity and fastened a hold on world markets. To the assets that were previously represented in our wide territory, vast natural resources, genial climate, industrial development and education and skill of our people we have added a new strength—a dominant place in the business of nations. We have such an abundance of goods and credit that we now say to the world outside, "We are ready to ship goods and we are ready for investment where there is assured a fair return."

Our showing of ability has given us a prestige that supports an influence over world conditions. Still, there is the view to be kept in sight that after all there is a community of interest among nations, which suggests that people in one part of the earth cannot be denied prosperity while those in another part go forward. Business that is profitable is always a two-sided affair, and it is too much to expect that the orders of other people for our goods and credit will indefinitely pour in upon us as though we were the reservoir of all, and had no competition whatever. The outside world needs American goods and will go on needing them, and as its buying power increases so also will its ability to command those goods increase. But that ability will be found in its own capacity to produce goods, and this signifies that as time goes on trade rivalries will grow, if for no other reason than the sheer necessities of other countries. If they import, they must also export to pay for what they buy.

Europe's Affairs Righting Themselves

COUNTRIES like England, Germany and France, we may be sure, cannot afford to lie dormant. International trade in the past was a source of their wealth; it secured advantages which could not be secured from strictly home trade, and as already indicated, many of their people subsist on oversea commerce. Europe's affairs, as shown in preceding paragraphs, are slowly righting themselves, and thoughtful people cannot, under the circumstances, expect that conditions will always remain unfavorable to them. The world of affairs has a way of righting itself, and with us, as with Europe, only in a reverse manner, abnormal conditions should in time find their counterpart in offsets. How the course will change is a matter for the present only of conjecture; there is no single commercial country of Europe that is yet ready to go out with a trade challenge, and much time will elapse before our mass output meets the full measure of competition from the output of Europe's cheap labor.

The prospect remains, though, that some time in the future the contradictory forces which now operate in international trade and credit must be corrected. For not only is the necessity laid upon others to export; in the long run it is incumbent upon ourselves not only to sell and lend but also to collect what is due us. Goods that are going out of the country are being paid for in considerable part, as has been the case over a number of years, out of credits secured here, and the amounts owed to us mount steadily. Wholly apart from the government debts, the foreign obligations held in the United States total $9,000,000,000, and up to the present time there has been outlined no definite program for the settling of these obligations, nor has a great deal of thought been given to the ultimate effect on merchandise trade of the future payments of interest and repayments of principal by foreign debtors.

It is clear that in time to come we and all the other nations together cannot be exporters only; some customers must take what is shipped. And it is also clear that if we collect what is owing to us, we shall have to take what others have to offer in payment; namely, goods. There is, to be sure, the prospect of so-called triangular and quadrangular trade operations, by which our debtors will not seek to flood our markets with their output but will send them to other countries which in turn will send to us produce that we need. As to all this, theories will become more definite as foreign recovery progresses; it would mean much to the prosperity of every nation were the sphere of commercial activity to be so widened as to insure against rivalry among trading nations that would thrust them into an over-supply of goods, with consequent labor unsettlement and a halting of the pace of recovery. Throughout the world there is so much room for development, with so many markets to be opened and divided, that there ought to be no vast dispute, in time to come, in the sphere of commercial power.

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

MAR 8 1926
UNIVERSITY OF ILLINOIS

New York, November, 1925.

BUSINESS in the United States is prosperous. It is being carried forward at a healthy pace, and every indication points to a continuance of active production and ready sales not only for the remainder of the present year but well into the year 1926. During the autumn there has been an increase of domestic buying that has resulted in important industries finding their plants busily employed and well booked for several months ahead. Production has not increased at any abnormal pace, but in a number of directions it has risen close to, if not above, previous high records. It is a noteworthy fact that at the moment surpluses of goods are not being accumulated, the movement into consumption being too rapid for that.

Chiefly supporting cheerful views on the domestic business situation is the apparently sound undertone of the prosperity that is being experienced. In contrast with the widespread speculation, extravagant expectations and strained credit of the boom which collapsed in 1921, there is now apparent no extravagant buying or uprushing of commodity prices, while credit is remarkable for its ease, and speculation for the most part is confined to the stock market and real estate.

It is true that the average level of basic commodity prices is something like 7 per cent higher than a year ago, but this is a stage reached in a gradually rising trend, and does not come as the result of any unusual scrambling among buyers for goods. Some commodities, like corn, cotton, sugar and wool, are below their prices of a year ago, while others are considerably above, but on the whole prices and profits have a better relation to one another than in a number of years past.

Stability of Present Prosperity

OF great importance is the balance that is being maintained between the country's output and consumption; also of great importance are the ease in the credit situation and the efficiency in the transportation of goods from producers to buyers. A sense of stability has been given to the whole structure of business by the intelligent manufacturing policies and the restrained attitude of buyers; this in no small measure is due to the fact that banking resources have been available at reasonable rates to every right enterprise, and to the further fact that railroad efficiency has insured quick transportation and the timely delivery of goods, thus freeing manufacturers and merchants alike from the temptation to build up large inventories against the danger of transportation blockades. Forward orders have increased recently, but this has been seasonal, in anticipation of a demand for consumers' goods in the industrial parts of the country and the farm sections as well. Industrial workers have had a long period of steady employment at stable wages, and in consequence are equipped with a high purchasing power, while farm income, in spite of the lower level of grain and cotton prices as compared with 1924, and in spite of the shortened wheat crop, provides a purchasing power well above the average of recent years.

So, then, underlying the buying movement which is under way is a foundation which rests solidly on the accumulated buying power of the American people, and that is supported by a number of favorable occurrences in the recent past. Living standards throughout the country have this year been raised higher than at any time heretofore, which means that more goods are required to satisfy the ambitions and tastes of the masses. Among the working classes large pay envelopes provide the means for much of the current buying demand. Among the investor classes increased interest and dividend payments provide means which add substantially to that demand. Then there is the buying by corporations, firms and railroads, for expansion or replacement, paid for out of earnings or by means of new financing.

The Country's Large Buying Power

BUYING has increased, it will be seen, because the actual purchasing power of the country, based on earnings, has increased. The fact is not to be overlooked, of course, that loans in addition to immediate earnings have supplied means which have added to the country's ability to buy. Among all classes credit has come to be used on a scale that surpasses anything of the past. Investment and commercial loans to domestic and foreign borrowers have run to large amounts; the facility with which the country's financial structure has to date responded to such borrowing demands has been extraordinary. It is not alone the familiar forms of investment loans and commercial credit that have come into increased use, however; the practice of purchasing every conceivable commodity "on time" seems to have become a part of our national existence. People in all walks of life have learned to spend not only their earnings of the present but to pledge their earnings of the future so that present desires may be fulfilled.

To those who view the course of events in a wide perspective, there has arisen some concern over the extent to which the practice of borrowing has grown, particularly because of the thought that it might imply unpleasant results later on. The aggregate volume of banking accommodation is at its highest level of the country's history, and by reason of the increase over the boom peak of 1920, there are those who conclude that inflation has played a considerable part in bringing about what has taken place. That bank loans have increased with no accompanying strain on money rates, and with only moderate recourse to the facilities of the reserve system, does not change their conclusion; neither does the fact of the country's enormous gold supply change it.

Were it true that the expansion which has taken place in the volume of credit had been employed wholly in financing current trade and industry, there would be good ground for concern over inflation. That, though, has not been the case. Lately, owing to commercial demands, there has been a natural upward tendency, but taking the course of events over an extended period, the loan expansion has found a notable source in the use of banking credit for other than strictly commercial purposes. Loans made on securities, for example, have increased more than loans made for purposes of manufacturing and distribution.

Loans of the Small Borrowers

AS for the type of loans other than those represented by strictly investment or commercial advances, there is no doubt that the increased financing of retail sales has contributed to the volume of outstanding bank credit, through the loans made by banks to the finance companies responsible for this type of business. Time alone will prove the extent to which these loans have made for inflation. There is no mistaking the fact that the practice of using credit has grown rapidly among people who desire things for their immediate comfort or happiness which their current means are unable to supply. Also there is no doubt that in many homes throughout the country notes are being signed and obligations undertaken that will bring distress later on. Still, it is far from being the case that spendthrift people are typical of the nation, and one hesitates to accept any conclusion that they are forcing the country into an unhealthy inflation. The great body of the American public is buying freely; at the same time there are manifold signs that it is conducting its affairs in recognition of its paying ability. The number of secured and unsecured notes is in greater volume than at any time in the past, but there is a very material offset in the fact that the total volume of the country's earnings and actual savings is larger than at any time in the past, while the aggregate of real wealth within the country, belonging to the middle classes, is more than at any time before.

The conclusion is warranted that the country's aggregate of wealth, plus the new buying power that is created every day, is sufficient to support the credit structure that has been reared. Broad conclusions, of course, are subject to many particular and local qualifications; moreover, the healthy state of affairs today does not justify a belief that indefinite increases in borrowings, like those seen to date, can go on. The recently renewed heavy inflow of gold broadens the opportunity for the extension of banking accommodation, and the reserve banks have available their rediscount facilities. Beyond a certain point, however, expansion would change a plethora of funds into a scarcity, and that point would in no long time surely be reached were borrowings to go on increasing.

Business is operating in a fashion which indicates a recognition of this; men responsible for the policies of their corporations and firms are taking counsel of caution, and are conducting their affairs with restraint, and it cannot be said that prosperity has brought carelessness. Of course, there is no assurance that this condition will not change; it has always been considered a characteristic of the American people that they swing to extremes, and in business as in most other things they are expected never for long to enjoy the tameness of the middle course. A condition of booming trade and active speculation may be ahead; still, signs of the moment do not indicate that such a condition actually is ahead. Business men as a whole know that the country's productive capacity is large and more than able to take care of every normal need. They know also that any extraordinary boom demand could not be met either by immediate construction of new plants or by increase in the labor supply. So they clearly understand that were demands to get out of control the inevitable result would be rising prices, an era of inflation, and later on a painful readjustment for everybody. The consequences of a national condition which combined competitive bidding, speculative commodity buying on credit, extensive forward orders and backward deliveries are still far from being erased from memories that go back five years; perhaps it is because of this memory that there are few reasons at the moment to look for a repetition of those conditions which in 1919 and 1920 led to the bitter experience which ended the boom of those years.

Looking into Longer Future

IN the light of what has appeared in preceding paragraphs, the immediate future of American business is not hard to read; it is extremely bright. The course of the longer future, however, is yet to define itself. The big fact overshadows all business that world affairs continue to be greatly dislocated. Trade of every nation other than our own is running in a slack stream, and for the world as a whole capital, credit, output and buying power are restricted to such a degree that living standards elsewhere than in the United States are lower than before the war. It is an extraordinary comparison that this nation presents when set against the other industrial and trade nations, and the fact that this country flourishes in the face of adverse world conditions makes our nation the envy of all other people. Because their hardships have colored their views it is only natural that they should regard what is going on differently than we do. It is their belief that prolonged and dependable prosperity for the world, in whole or in any part, can only be assured by a general return to a state of full solvency, and by a restoration of the international markets as a whole to a condition of balanced economics.

How Far Is Prosperity Balanced?

WERE progress dependent wholly on domestic factors there would be good reason for ignoring this view, but strong as we are, foreign affairs after all have much to do with our destiny, and in the long run they will in considerable measure determine whether our prosperity will be maintained and expanded. The importance of foreign markets to our output and trade has been discussed so often that the subject has become rather dull to the average reader; nevertheless it bears to be repeated frequently that as an industrial, agricultural and commercial people—and now also as a creditor people on an unexampled scale—we are far from living for ourselves alone, or conducting our affairs alone. Momentarily, in periods of national pride, we think differently, but in the large our country is a producer of more than it consumes, and we look to other people to buy not only our surplus of raw products but large quantities of our finished materials as well. This condition may change in later years; for a long time to come, however, the measure of American output beyond domestic requirements will rest with the success that is met in disposing of American goods abroad.

Many favorable events of the recent past—the Locarno agreement, the composing of political differences abroad, the progress of Germany—have given rise to hopeful sentiments with respect to economic improvement on the part of European nations. At best, improvement is bound to be slow;

much is still to be restored; Europe has to save a great deal to make good the destruction that has taken place, as well as to offset the past effects of its decreased power of production. It is to be kept in mind that while Europe anticipates going on with its buying here, it will buy freely beyond absolute necessities only as it regains the power to pay for what is bought. Up to now foreign markets have taken great quantities of our surplus output, but they have paid for hundreds of millions of dollars of their purchases with notes, and now, as much as any time before, our exports are being maintained because of our ability and readiness to continue to lend to oversea buyers.

Problems that Still Must be Settled

CREDIT operations to support trade and prosperity cannot go on forever unless they balance, and so we have a very direct concern in the success that is achieved by Europe in accomplishing its return to solvency and strength. As a people, we have established a dominant place in economic affairs, but the question comes, how far can the course of events in the past decade be accepted as a symbol of what is ahead? Possessing a third of the developed wealth of the world and standing against nations which have been weakened, the United States has much in its favor. If we took no stock in a community of interest throughout the world, between nations and classes —if, in other words, we could believe that the economically strong must triumph over the economically weak—we should then quite readily believe that even greater advantages than those already acquired are to come to the United States. We should believe that while others are held back our commerce is to be advanced; that we are to capture the trade of Europe, Latin America and the Far East; that our credit is to find its way into new markets; that our business enterprises and banks are to branch out into every corner of the globe—that, in short, we are to build a commercial dominance and establish ourselves serenely on the world's business throne. We should look upon ourselves as the shippers, traders and bankers of the civilized world.

This view would gain us little in the long run. Permanent trade is built on an international community of interest, and supported by international solvency. It will flourish in the future as the economically weak become strong enough to satisfy their credit obligations. So long as our credit flow is overwhelmingly in one direction, outward and for the primary purpose of supporting exports, our permanent trade and credit relations will not be properly established. They are disjointed and out of balance at the present time, and an unwarranted boom in this country would throw them still further out of balance. High prices here, of course, would make it easy for foreign manufacturers to sell in our markets and thus liquidate some outstanding debts. But they would also make us lose markets.

Interests will be served by our continuance in the present steady and restrained course of improvement. Big problems of finance, industry and commerce, which bear directly on our permanent prosperity, have still to be worked out, and their solutions will present themselves the more quickly if events can be kept in a normal and even course.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, December, 1925.

WITH the end of 1925 approaching, there is confirmed on nearly every hand the statement made by President Coolidge in an address delivered in New York on November 19, that "we are finishing a year which can justly be said to surpass all others in the overwhelming success of general business." There are abundant signs that the country, industrially and commercially, is in a prosperous state. Agriculturally, it falls considerably short of being as prosperous as it might be, but other than in the farming districts production, distribution, employment of labor, clearing of bank checks and the other recognized trade indices show an accelerated progress that has brought about an upswing of buying in almost every important industry of the nation.

The absence of rapid price advances makes it clear that this upswing has not been in the nature of a boom. Tendencies to speculate have been indulged in, it is true. Stock market activities and operations in real estate have attracted people's savings and have made large claims on credit. Extreme tendencies in the commercial field, however, have been held in check by the good sense of people in general and by the capable direction of business leadership, so that commercial speculation of a kind that would inflate the general economic structure, pile up unsold goods and make dangerous inroads on banking credit has been largely absent.

Consolidating the Nation's Power

THIS bodes well for the future. Conservatism has done much to keep eyes not only on current opportunties, but on lessons of experience and on possible impending changes. Looking back, memories are not so short as to dim the recollection of the difficulties which came out of the inflationary period of 1919 and 1920. Looking forward, imaginations are not so far stimulated as to fail to recognize that our prosperity is not in a condition of absolute balance—that, for example, certain of the agricultural sections of the country are far short of enjoying sound good times; that certain of our industrial and building activities are abnormally stimulated; that certain of our foreign customers are still so lacking in buying power that we must finance our sales to them.

It is recognized that tests are to come—tests which suggest that efficiency in organization and management will in time be required as much as mere volume of output. The desire to consolidate the nation's economic power was never so clearly manifested as it is today in highly organized and concentrated effort; there is a genuine leadership in industry and an intelligent direction of affairs. Thus it is explained why, instead of pushing sales furiously, energy is being devoted more than before to the problems of production and distribution, so that business equipment and methods may be improved, costs lowered, industry fortified, and the situation as a whole strengthened against what the longer future holds. In the field of manufacturing and transportation alike pronounced progress has come out of this; few people appreciate in full the advance that has been made in the country's factory methods and in its railroad and other transportation service. In every field, though, there is still much to be done, and particularly with reference to placing agricultural and foreign trade activities on a firm footing much capable effort must be put forth. It is the unhappy complaint of many of our farmers that national prosperity is, and for a long time has been, confined for the most part to the industrial and commercial communities, while they have had to contend with high costs, restricted profits and slow liquidation of debts. Much of our merchandise export trade has been made possible only by the use of great volumes of our own credit, extended for the benefit of our customers.

Basis for Present Prosperity

MAKING allowance for all of our shortcomings, however, many qualities contribute to our present material prosperity, and as we leave the present year and enter 1926 various authorities may be expected to dissect and discuss them for the nation's guidance in the new year. There is for example the great forward movement in real estate and in the construction industry. There is the unparalleled buying of automobiles. There is the widened use of many other things which contribute to human comfort and happiness. There is the large purchasing power of the people, derived from full employment, high wages and increased dividend and interest distributions. There is the added purchasing power given by the extraordinary development of the retail instalment-credit plans. There is the favorable banking situation. There is the promised further relief from the burden of Federal taxes. There is the buying of American goods abroad.

That all the forces favorable to good times in 1925 will be equally effective in making 1926 a prosperous year is naturally a widespread hope. Among some observers it is already an expectation; where the "prosperity complex" is most strong, prophecies are beginning to appear of broadening opportunity and expansion, with the country building progressively on what it already has. Prophecies that look forward over an entire year, and that recognize only good features and ignore those which are bad, take of course a good deal for granted. Even short-term prophecies are hazardous; times have been in the past when we were told that we were to be prosperous and snugly settled down to a complacent enjoyment of our abundance, only to find tribulations quickly bringing their painful but remedial lessons of the transitoriness of easy success. The violent readjustment which occurred in speculative values in the stock market in the course of the past few weeks has recalled some of those occasions of sudden change, and though this readjustment has failed to quiet the most hopeful prophecies of expansion already mentioned, it has at least caused them to be matched by some anxious inquiries as to whether the break might not after all foreshadow a trade reaction, just as the speculative advance which preceded the decline foreshadowed the advent of the present industrial prosperity.

Whatever inferences are logical from the stock market movements, this much is to be said: the sudden turn has brought about a more careful study of the true relation of those forces which now govern the nation's economic progress. There are many people who believe that the change in the speculative trend has been no more than a bringing of sentiment back into line with actualities; even if it has been no more than that, it has shown effectively the danger of counting too confidently on the nation's accumulated wealth as a basis for a type of prosperity that is at once record-breaking, permanent and secure. Human impulses being what they are, the caution which contributed so much to the stability of the current year's trade might easily have been superseded if, taking its lead from an unbroken rise in the stock market, the business community had come to accept happy trade auguries and had capitalized them as though every one of them was assured of fulfilment.

The speculative turn, then, will not have been without good effect if in fact it has signified no more than a bringing of sentiment back into line with actualities, and if, by making it possible to look with a clearer vision on the business situation, it has checked people from slipping too readily into a take-thine-ease, plenty-ahead spirit. Carried far enough, as was the case in 1920, a spirit like that would have bred many abuses, and changes, drastic because they were not prepared for, would sooner or later have come to shock us into a realization that business success is never a condition of dug-in permanence.

Volume of the Country's Buying Power

ALL this does not minimize the strength of the forces underlying the current good times; indeed, so favorable are these forces that it is not too much to look for continuing activity throughout the United States for some time to come. The capacity and ingenuity of the American people, greatly increased in recent years, has given them an immense purchasing power. "A country," wrote a recent observer, "which in the years following a fierce and exhausing war can absorb and maintain millions of new automobiles, to say nothing of other fabulous developments in moving pictures, radio and similar diversions, is obviously geared up to an enormous consumptive habit, and it is well to remember the way in which this colossal consumption has been attained; that is, the very ancient process of producing goods for exchange." An interesting measure of the power which rests in the American workman's pay envelope and in the American investor's dividend check is found in recent figures of the Treasury Department which show that 2,232,000 people in this country received incomes of more than $3,000 in 1924, on which taxes were collected this year, while, altogether, people sufficiently well off to pay taxes on their 1924 incomes numbered 6,890,000.

Significant as they are of a large command over physical resources, it must still be recalled, in considering figures of our buying capacity, that it is not volume of buying alone that will govern our forthcoming scale of prosperity, but the changes in the direction of that buying, and the rate of its progressive increase. Experience teaches that trade activity is always in a state of advance of recession, and though over the course of history the sweep of our national welfare and development has been remarkably upward, lifting the standard of American life to the highest ever known among civilized nations, that upward tendency has been subject to oscillations in accordance with the manner in which buying power, alike in its direction and growth, has kept up with or fallen behind the growth in productive industry.

Looking Forward into 1926

CHANGES and interruptions are bound to occur in time in the prosperity "curve," and their importance will depend pretty much on the nation's ability to keep output adjusted to, and properly balanced against, buying power. It is to be kept in mind that while the national income has increased, so also has the capacity to produce things been increased to match the power of that income. Hence the earned dollar has for some time past been pretty well lived up to—in fact, not only has the earned dollar accounted for much of our prosperity, but the borrowed dollar has contributed its part, for credit on a large scale has been employed. Then, too, beside our own buying on cash and credit there has been an additional force stimulating output. The buying of foreign markets, also on cash and credit, has contributed materially to support the scale of American production.

Looking forward into 1926, then, the problem of our prosperity in the new year resolves itself into two questions. One deals with the degree in which the people's earnings will be sanely and properly used; the other deals with the degree in which credit will be sanely and properly used. If the direction of the public's taste, as measured by the way it uses its money, contributes to accumulated wealth, and is not in particular lines abnormal, it will enlarge the nation's economic power and insure prosperity for the future. If the direction of the credit flow also contributes to accumulated wealth, and if at the same time it leaves banking resources strong and unimpaired it, too, will enlarge the nation's economic power and insure prosperity for the future.

Situation in the Money Market

TO take the question of credit first: added together, the demands on the country's banking resources have in the closing months of 1925 been greater than at any time in the past. Yet in spite of certain recent events, like the upward movement of rediscount rates at several of the Federal Reserve banks and the frightened selling of speculative stocks ostensibly on the fears of dearer money, there remain ample supplies of commercial credit to go around. A very large stock of gold, a co-ordinated system of banking, and a mechanism for increasing the supply of credit to the fullest extent that legitimate requirements demand, give assurance regarding that. It is an important fact that the expansion of banking credit up to now has been relatively least heavy among the commercial loan accounts. Because the whole system of commercial turnover has been made swifter, and because manufacturers and merchants carry smaller inventories than previously, a greater volume of business is now possible without a greatly enlarged use of credit.

In other directions than domestic trade, however, the volume of the country's business is liberally employing credit, and so there is to be considered the question of its use to continue the purchase of investment and speculative securities, to continue the merchandise export trade, and to promote the greatly developed system of instalment retail sales. In addition there is to be considered the continuing use of credit, other than that supplied by the commercial banks, to support real estate and building ventures. That domestic and foreign securities, instalment obligations and real estate transactions have absorbed a considerable part of the floating supply of credit is readily acknowledged, and that they have contributed to raising the cost of credit is easily shown. They have left banking resources strong, to be sure, but there is a sufficient change in conditions to warrant the belief that great and continuing increases in the use of credit for other than commercial purposes, on the scale of the past year or two, cannot be counted upon in the time that is ahead, unless the foundation of the credit structure is also greatly and continuingly increased by savings on the part of the people, or by other deposit increases.

Earning Power and its Effect on Buying

As for the people's earning power and the uses to which it will be put: it holds that most of what has been bought out of the proceeds of the American pocket-book has to date been for immediate living necessities or for lasting family betterment. Some buying power has been used wastefully, but Americans have ever given reason for being termed the world's most wasteful people, and moralizing does not change them from that. Much of the buying has been normal; not a little of it, however, has been abnormal, designed to overcome small output of the past. In this particular the activities in building construction and automobile manufacturing warrant close attention, with a view to determining how far those activities, which involve large values and large employment, will henceforward embody hazards inherent in abnormal movements.

Much of the record-breaking building construction throughout the country has especially been to make up a shortage which was inherited from the war, and which came out of subnormal operations from 1917 to 1923. The need for new homes and other structures was for a long time an imperative one, and experts calculate that as a consequence of this the 1924 and 1925 building operations were enlarged on such a progressive scale that in the present year they reached a level 25 per cent above normal. Automobile construction had no incentive like that of an inherited shortage; even so, record-breaking activities in 1925 have resulted in an output of 4,000,000 passenger cars and trucks, of a value of three billion dollars, while for the three years ending December 31 next, the automobile production of the United States will have shown a total above 11,000,000 cars, as compared with 6,200,000 in the preceding three-year period, 1920, 1921 and 1922. Here is an increase, comparing a current period with the similar period immediately preceding it, of 80 per cent.

Building Construction and Automobiles

To what extent the rate of building construction and motor car production has up to now been in its right relation to other things is a matter of individual opinion; what after all is important now is the direction which those industries will take. The building activities have brought the supply of homes and other structures to a point which would indicate that during the coming year what is left of the old shortage will have been largely made up. The automobile activity has brought the rate of output to a total of 15,000 new cars every working day—a rate which if continued to the end of another year would result in there being four cars in use for every three cars in use now. Already, within three years, there has been supplied a new car for every second family in the United States.

With building shortage in process of disappearing, and with enough automobiles in service now to carry half the entire population of the country on wheels at a given time, variations in the building and automobile industries are bound to occur during the coming year as demands change or taper off. This will not necessarily mean any abrupt termination of the high rate of present activities; the stimulation of suburban construction through the use of the automobile, the stimulation of automobile building through the changing centers of population, and the generally high standard of living which has accompanied high wage levels, may be expected to operate against that.

Still, the situation in the farming sections, the situation in foreign trade and the situation in two of the country's major industries, all involving large values and large employment, give an example of the degree in which the future holds contingencies that are beyond present control. These situations show, moreover, the degree of the need for keeping before our vision what is both favorable and unfavorable in the outlook, and the further need for keeping ourselves ready for adjustments, instead of ignoring their approach.

Again it bears to be said that there is every indication that business is on a sound footing. Active productive operations, supported by a large accumulation and diffusion of wealth, has lifted the nation into a level of prosperity, and it holds that so long as those operations are not overdone, and so long as the means for paying for the output of those operations are readily at hand, the progress of the country is on an unmistakably firm footing. Adjustments will come; building construction, the manufacture of automobiles and the output of various things will be subject to change as the character of needs change, as output gets away from buying power, as credit conditions change, and as foreign markets return toward their old scales of production. Still, these adjustments should impose no serious check against the course of the nation's progress, unless through sheer neglect or in defiance of every warning business as a whole goes forward and builds, produces, spends and borrows recklessly, on the mistaken assumption that the quality of its prosperity, when that prosperity is on its highest scale, is one of unqualified permanence.

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New York, January, 1926.

AMERICAN business enters the new year under favorable conditions; large output and wide distribution of goods, together with comfortable credit conditions, indicate for the beginning of 1926 a large number of favorable auspices.

The country's rate of industrial output is high, yet business moves forward with a commendable degree of care, and productive activities are controlled so as not to outstep sales. In a period of activity like that of the present there is always pressing the temptation to place high estimates on the amount of goods that can be manufactured and sold. Because the temptation has been and is being restricted, however, the inventory position of most industries is now exceptionally strong. Jobbers and merchants are ordering only a little way ahead, in the comfortable assurance that the improvement in transportation facilities has greatly speeded the flow of commodities from their raw state into the mills and factories, and out again as finished products. The whole system of business turnover has been made swifter, but contributing to strengthen the situation is the restrained manner in which business as a whole is conducted, and it is distinctly to the credit of American intelligence that industrial activity has not overproduced and forced supplies on the consuming market.

Looking toward the future there is, as the new year opens, widespread optimism throughout the country. Group thought in the United States is always characteristically more hopeful than is that in any other part of the world; our economic advantages, wide territory and large opportunities account for that. But accounting for the contrast which is found at the moment toward the future, as between the United States and other countries, is something more. Underlying it there is also the contrast of the prosperous and happy condition of this country, as against the hardships which came as a legacy to every other country that was actively engaged in the war. Groups and nations are like individuals; the glasses through which they look are colored in accordance with temperament, locality and the state of their fortune. It is no exaggeration to say that since the war the United States has prospered enormously in an economic sense, while other nations have had to reconstruct themselves and struggle painfully back up the hill of financial solvency. So, then, the condition of life in the United States gives a bright tint to the glasses through which we look at world affairs; the condition of life elsewhere gives a blue color to the glasses through which other people scan the outlook.

Extent of Progress in Europe

THIS is not to say, with respect to Europe, that in all parts of that continent is the outlook viewed in the same light as in the earlier days of reconstruction. In 1921 and 1922 the old world was thought to have such a bleak prospect that its spokesmen went to extremes in their prophecies; "Europe's civilization is disintegrating; it is headed straight for a smash" was one of the expressions of that day. That is not the view now, yet conditions abroad are such that in the opinion of the people most concerned the old world is still far down the road which leads back to the place it held in the past. For that matter, there are Americans who still take a doleful view of Europe. Thus, while so many travellers have lately brought home the cheering view that people abroad are moving steadily toward better times, others warn against counting too much on bright prospects. For example, one recently returning American, a trained observer whose views always command attention said:

> "Spiritual and physical wounds of the war are more manifest to an outsider than they were in 1919. In nearly every European country the people impressed me as being unhappy, resentful and restless. * * * Every one seems to be groping in the dark; whatever is tried the people wish they had tried something else. * * * The attempt to get the wheels of trade and commerce turning once more is proving beyond the splendid heroism and wisdom of Europe's leaders."

The man who expressed these sentiments believes, of course, that he has honestly analyzed conditions. Yet set against his views are others equally honest but frankly hopeful. Looking through their own bright glasses, most Americans see Europe's troubles as things of the past.

Offsetting Good and Bad Factors

EXTREME views, hopeful or depressed, are seldom justified in any matter as large as the welfare of an entire continent which comprises thirty or forty countries. With respect to Europe and its manifold problems, it would seem that the sane view of the day is after all the conservative one. Affairs abroad are better than they were by a good deal. At the same time they are not right, and it is only the unrestrained optimist who would say that the war scars still left are to be healed without further suffering. Brief examination of a few of the countries will show the reasons for this.

England, having experienced a melting away of export trade and a strain on its resources to effect financial rehabilitation, finds itself burdened with a great deal of unemployment. France, having too long followed the will-o'-the-wisp of credit expansion and currency inflation in anticipation of indemnity payments, finds its public finances awry and so weakened that the most drastic steps must be taken to save the national solvency. Germany, having been lifted out of financial ruin, finds itself confronted with a need to restore productivity and make reparations at a time when working capital is so restricted that even the strongest borrowers are limited in funds, while small industries within the country have such difficulty to proceed that some of them are being eliminated. Examination of the economic aspect of Italy, Austria, Poland, Belgium, Russia and the smaller states shows varying degrees of strain from the successive ravages of the war and the inflation period.

Progress of Western Europe

STILL, recognizing every one of the difficulties of the countries mentioned, it nevertheless is possible to view the situation with a large measure of confident hope. In every country there are solid elements of strength.

Consider, for example, England. That country, made up to such a large degree of people who are international merchants, middle-men, bankers and brokers, is regaining for itself, with its restoration of the gold standard, a firmer place in the world's financial clearing house. Having taxed its people courageously, balanced its budget and within a few years advanced the pound sterling by 50 per cent. to its gold parity, England is again utilizing the factors which were chiefly responsible for its former progress; namely, capital, superiority of commercial and financial equipment, credit facilities and a remarkable degree of human ability.

With respect to Germany it is to be kept in mind that only two years ago it occupied the role of Europe's beaten and disorganized nation; undeniable progress and the underlying elements of strength disclosed by the administration of the Dawes Plan take an added significance in that fact. Stability and individual initiative are doing much for Germany, even though the full effects of the destruction of capital by war and inflation are only now being probed.

The Real Recovery in France

FRANCE now is looked upon as the weak spot of western Europe. That country is passing through a crisis, yet the crisis is almost entirely in the matter of public finance. The French people themselves are strong and resourceful and as to the essential soundness of their economic position there can be little doubt. It is an interesting fact that coal, iron and steel output in France have practically recovered their normal pace; iron ore output is the largest in Europe and the second largest in the world. The heartbreaking task of restoring the regions devastated in the war is eighty per cent completed; what this means may be judged from the fact that upward of 750,000 buildings have had to be rebuilt or repaired, including 23,000 factories. Upward of 3,000 miles of railway have had to be reconstructed; 36,000 miles of highways and country roads have had to be rebuilt; eleven billion cubic feet of trenches have had to be filled in; 290 flooded and damaged coal mines have had to be restored. All in all, 8,000,000 acres of land in France were churned up by gun-fire, of which 5,000,000 acres were cultivated fields; this land has had to be reconditioned.

There surely is significance with respect to the economic future of France in these figures. More than four million French people, between 1914 and 1918, had their homes invaded or destroyed, yet those people are back again under their own roofs, and at work. France is passing through a financial readjustment, and severe deflation is ahead. That deflation, however, is certain to find the country far more ready to meet its penalties than was Germany, for its inflation has been far different than that which preceded the other country's calaclysm of 1923. Germany's printing of currency was reckless and uncontrolled, and the paper mark came at last to a billionth of its former gold value. France at least has sought to exercise control over its currency issues, and there is no mistaking its purpose to reestablish its finances.

Betterment in Trade and Politics

SUMMING up the situation in Europe, it can be said that every country has made progress. For some of them that progress has truly been small. Yet taking them together, and scanning them as they now are, it is seen that all that has gone on has had the net result of increasing production of the things necessary to life and progress. That production is now the highest since peace was restored. Europe's trade has improved. Capital and credit have begun again to grow, slowly but surely. Budgets are being balanced and debt controversies settled. In a dozen countries the gold standard is restored. The currency system of nearly all the smaller countries has been reorganized.

What promises so much for the future is the improvement in the background against which business as a whole is carrying on its constructive work. The mental condition of people of civilized nations is coming again to be a reasonable one. The poison of jealousy, hatred and controversy is gradually being squeezed out of the system and replaced by tolerance and unity of purpose. It is a decided mark of progress even when people do no more than acknowledge facts when previously they refused flatly to acknowledge the evils which held them back. For some countries the recovery that is to come is bound to be slow, for there are still to be reckoned with not only economic weakness but such ponderable obstacles as overpopulation, restricted opportunities, racial differences, political distrust, customs barriers and standing armies. Still, it remains that Europe's changing moral qualities are by far the most important of its present forces of goods.

Those changing moral qualities make all the other changes possible. With the definite signing of the Locarno pact the full importance of this is coming to be recognized. What European business really required more than anything else from 1919 on was a sound assurance of stability and some permanent basis of confidence. Treaty after treaty in this interval failed because treaties could not, of themselves, make peace or establish good-will. What the newly signed agreement reveals is a return toward good-will in Europe and an advance to a stable balance of economic power. Statesmen abroad have provided a practical means for cultivating a period of peace, and granted a maintenance of stability and good-will, and a continuing honest sincerity of purpose, people will go on with the unfinished work of reestablishing their economic welfare.

Meaning to the United States

NOW, in a business sense, what does all this mean to us? Simply this—as parts of the world of business and trade, the prosperity of all countries, our own among them, are bound up with one another. A dozen years ago we were a people who regarded foreign markets as merely a place to dump surplus products; today, from an expansive force that none dreamed was inherent within ourselves, we are an export and credit nation on a scale not paralleled by any country, other than England, in the history of trade. The change which has occurred reaches down to the fundamentals more than the average man appreciates. Events have thrown international commerce and finance completely into a new balance; certain parts of the world have a curtailed producing and purchasing power, while we, more than any others, have an enormous producing and selling power. Having a capacity to turn out farm products, mine products and manufactured products beyond our own needs, and having as well a large proportion of the liquid wealth of the world, is it not reasonable to have a concern in the welfare of people who look to us for the goods they need for their livelihood and also for the means with which to purchase those goods?

All that goes on abroad has a real and very practical bearing on our future prosperity. In extending our business beyond our borders as far as we have done, we have literally bound our economic life with that of other nations. Over a period of little more than a decade we have given incalculable help to other people. Goods of enormous value have gone to them on credit; loans during the war financed them; loans after the war have helped turn their wheels of industry. What we accomplished has been wonderful, but it has led to other things, yet to be accomplished, that must outrank the past in importance. Having built and widened the stage of our economic activities, we have now to determine how we shall direct our performance thereon.

Steps to be Taken in Future

THE initial steps toward that determination are being worked out by the men, both here and abroad, who are now wrestling with the trade and credit problems which have come as a consequence of the war and the war's aftermath. The further steps will be worked out by those who are to guide the direction of international business and finance in the next decade. The task will not be easy. Most people feel that the historic events which have occurred since the close of the war have established a new world balance. That they have not done. On the contrary, most of them have contributed to throw out of balance the finances of people and nations. Equilibrium is destroyed and must be restored if nations individually and together are to work out their right destiny.

As for ourselves, what so many people overlook is the fact that the outside world today is buying and borrowing from the United States not out of choice but by compulsion. Foreign populations are buying goods which they ought to produce, and are dependent on our finances when under normal conditions they should depend on themselves. Time is bound to change this. Instead, therefore, of losing our proper sense of value because of our momentary dominance, we need to look forward toward the day when our trade and financial operations will be conducted under less easy conditions.

The skill and ambition of other people are still factors in world affairs, and there is an important business implication in the fact that the standard of living abroad is in strong contrast with the high level which the United States prides itself on having attained for its working classes. In this connection there is merit in the oft-repeated statement that in the struggles of international trade which are to come, it will not necessarily be the richest or strongest country that carries off the prize. Efficiency in mass production is our great advantage, but certain advantages will rest with the people of any country who are most ready to endure sacrifices in order to adapt themselves to difficult situations, and to accept, if need be, inferior wages, nourishment and lodgings.

Working Out the Problems

PERHAPS, with Europe depending so heavily on us and still so poor that it cannot go out with a challenge for world trade, it is too soon to call up the prospects of later competition. We don't know what that competition will be. Events have a way, after all, of shaping their own course, and the future is pretty well hidden. But it is well to keep the thought of our relative merits and demerits before us, for the place which the United States will eventually occupy among the great trading and financial nations will be determined by those qualities.

That the place of this nation can be made a permanently high one goes without saying. Our material dominance is so great, and there is so vast an opportunity for future developments, that it requires no keen vision to perceive our destiny. Whether we will it or not, it is one of leadership. The United States is, and for some time to come will be, the source of ideas and initiative for restoring mankind as a whole to a position of stability. It is, and for a long time to come will be, the source of much of the world's credit. It is, and always will be, the source of much of the raw material and finished goods which others need. Standing in a position like this, and given the proper economic and financial leadership, the future is secure. Proper leadership, however, and an intelligent recognition of every condition involved in our welfare now and later on, is essential.

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THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, February, 1926

PROSPECTS favor a continuing high scale of business activity in the United States. Confidence in the immediate outlook finds support in a healthy trade and financial condition, and were it not that circumstances like the anthracite strike and the unsatisfactory price relation between agricultural products and manufactured goods have had a repressive effect on certain sections, there would be an enjoyment of good times and a spirit of optimism throughout the nation.

Business in general is moving forward under a rapid momentum, and many qualities contribute to its cheerful aspect. The widespread employment of labor at high wages; the continuing demand for building construction and for automobiles; the export movement; the strong banking situation; the helpful attitude of the government to business as a whole; the facilities for retail credit: these and a variety of other forces are familiarly mentioned in every discussion of the foundations of the present activity. The maintaining of this activity is the hope of every one who is reaping a benefit, either in the way of profits or steady employment, and as a favorable sign of the times it is worth pointing out that avoidance of speculative excesses, save in a few outstanding instances, is contributing to fulfil that hope.

Conservative View of the Outlook

PROSPERITY is never, of course, a condition of dug-in permanence, and it is an indication of the prevailing recognition of this fact that the bad as well as the good influences of the moment are constantly being kept in view. The temptation is always strong, when things are going well, to forge ahead and seek opportunities for larger profits, but movements toward rapid expansion are daily being combatted by recitals of the factors which might counteract the present tide, and therefore there is a marked degree of restraint in most of the plans which are under way in the field of business. This spirit of conservatism is not anything new; it has resisted the opportunity to inflation since the latter part of 1922. Still it is a notable thing that while business has continued so long and so resolutely to resist over-expansion, activity has been maintained at a high rate.

Balancing Buying Power and Output

CONTINUING healthful activity will depend on maintaining, from now on, a proper balance between purchasing power and production, and a sane and proper use of credit. Purchasing power and use of credit have up to now been liberally indulged, because they have been liberally available. They have raised living standards in every part of the country, and costly homes, automobiles, fine clothes and luxuries, together with the vast number of things which have come to be termed necessities of life, are now demanded by people everywhere. Demands of our entire population are more numerous than before, and sound business will rest on the ability of buyers to translate those demands into actual purchases.

Clearly enough, the wealth of the country and the volume of current income enable a great volume of cash purchases, and will go on doing so. Also the use of credit and the spread of the part-payment habit is to be considered. Installment plans have supported an increasing volume of American buying for several years past, and are expected to continue to do so, even though there is a reservation in many minds as to the possible hazards involved. In connection with retail credits, it may frankly be admitted that up to the moment its spread has introduced an element into the situation whose place is not yet readily interpreted. The movement has reached large proportions and indicates that retail buyers, unlike manufacturers, jobbers and merchants, have anticipated their requirements for six months or a year ahead. They are carrying goods only partly paid for, which under former conditions would still have been in first hands, if they had been manufactured at all. It remains to be seen, however, whether all this has checked future buying power, weakened the economic structure of the country or impaired its financial strength. Much installment selling has without doubt been to wrong people, and those people, having gone beyond their financial depth, will have to curtail their buying of the future while they work to pay off what they bought in the past. But by far the largest part of the installment selling has been carefully conducted and soundly financed, and over and above all, the records show that savings out of income on the part of millions of people have after all more than balanced the totals of installment loans.

Strength of the Credit Situation

LOOKING ahead in the money market, there is no reason to anticipate any early difficulties n the business situation arising from credit stringency. Having thus far during the winter financed large volume of business, extensive operations in the security fields, and a foreign need for funds, the banking reserves are still comfortable, and rates for funds have practically remained at the level of the past several months.

In perspective, what is so striking a feature of the credit situation is the fact that despite the many claims on banking facilities, the current level of money rates is only a little above the average of all of 1925, and is actually below the average level of every year, other than 1925 and 1924, of the past decade.

This simple statement of a statistical fact shows how far the new order in banking has adjusted the country's credit machinery to modern needs. Just as conditions in manufacturing, transportation and selling have greatly changed, conditions in the field of credit have changed. Old systems could never have supported the demands which are now made; in the same sense that the equipment of a dozen years ago would have been inadequate for present needs in manufacturing and distribution, the banking system of a dozen years ago would have been altogether inadequate for financing the current volume of factory output, merchandising, movement of crops, requirements of security markets and needs of foreign borrowers.

Differences Between Past and Present

LOOKING back over history it is seen that periods of prosperity like that now being experienced invariably tended in the past to bring dear money, and dear money tended to bring an end to prosperity. Formerly the country was served by an aggregation of many thousand banks, acting independently, and each individual bank relied to a large extent on its own resources. Credit supplies could be expanded only up to the limit of those resources, so that stringency used to come when business needs were greatest, rates being advanced to hold the demand for credit in bounds.

All that is changed. There is a very large stock of gold that has given the country an unrivalled base for credit. There is a coordinated banking system that has made possible the adequate pooling of financial resources, and there is a mechanism for supplying credit to the fullest legitimate extent. Broadly speaking, therefore, the credit situation at the present time is strong; the commercial banks, and behind them the Federal Reserve Banks, have still at their command a power to support proper expansion. The thought is entertained in some directions that expansion in domestic business activity, price inflation and a gold outflow to Europe might presently combine to change the aspect of domestic money market conditions. Prophecy regarding these things is not safe; there is ahead too much that is unknown. But with respect to business expansion and price inflation, the attitude of producers, distributors and bankers alike, as already stated, is one of caution; the manner in which speculative excesses have been discouraged shows the spirit in which business as a whole is being conducted.

How Far Can Europe Command Our Gold?

THERE is always to be considered the possibility of a gold outflow. Everyone expects that ultimately the United States will send away a large portion of the surplus gold which it now holds, but even though most people appreciate the reasons why shipments should be made, it still remains that Europe is not able, through the strength of its financial or commercial position, to command large drafts on our supply. With respect to England, sterling exchange is now close to the highest point reached since that country's return to the gold standard, and England is making a supreme effort to enlarge its export trade and bring down its merchandise imports. That country hopes presently to come to a position where it can draw gold to itself. With respect to France, the stabilization of that country's currency and the establishment of its finances on a sound basis may draw gold, just as did Germany's stabilization in 1924, through the means of international loans in which we shall take participation.

Allowing for all the forces in sight, and looking forward to a continuance of foreign borrowing in the New York market, it nevertheless is not yet clear how the power of Europe will be sufficiently strengthened to draw gold by normal operations from New York in sufficient amount to have a determining influence on money rates in the near future. It has not succeeded very far up to the present, even by going heavily into our debt, and it is to be remembered that there is now the constant need on the part of Europe to make remittance to our market for goods purchased, as well as for interest and amortization payments on loans whose volume is greater than ever.

The Realities of Government Economy

TAXES are always given important consideration in judging the business outlook, and much is being made of the bill now in Congress, the purpose of which is to reduce by $350,000,000 the present year's burden of the Federal income tax. The entire country is bent upon tax reduction, and just as in other years when changes in the Federal levy were in prospect, there is pleasurable anticipation of what is ahead. That is natural enough; every dollar struck from the levy on the people for the expense of government leaves so much more for use in business, for investment, or for the purchase of some personal necessity or comfort.

Final conclusions with respect to the relation of taxes to prosperity ought not to be drawn, however, from the economies in Federal expenses alone. This country has various divisions of government; each division has spending power and has developed an astonishing knowledge of how to use it. The business of government in the United States has expanded to a scale not dreamed of by our fathers; through one form or another national, state, city, township and district government has grown to an impressive scale, and one person out of sixteen is today a governmental employee of some sort. The significance of this statement at the moment lies in this; mere economies of the Federal government, most often and most hopefully referred to in present-day conversations, fall altogether short of presenting a complete accounting of the financial burdens placed upon American citizens which ought to be lightened.

Extent of Taxation's Growth

FEW people, until confronted with the actual figures, have any conception of the total cost of government in the United States. Adding together all the expenditures of national, state and local governmental authorities, and combining maintenance and capital outlays, that cost is $30,000,000 a day. The National Industrial Conference Board recently showed total governmental outlays for 1924, the latest year for which returns are available, to have been $10,252,000,000. In that year the relative governmental expenditures were as follows:

Federal Government.....	31.8 per cent.
State Governments.......	15.5 " "
Local Governments......	52.7 " "

All public funds are not provided out of taxes; a portion of government revenue is derived from the proceeds of loans, and other portions are the proceeds of special assessments, fines, penalties, interest and similar direct income which is not classified as taxation. Whether by taxation or in other ways, however, the money to operate the machinery of government comes out of the average citizen's pocket, and the strain on that pocket does not grow less but more.

Governmental expenses as a whole have over a course of years gone steadily higher. Not stopping their advance after being doubled, local expenses have trebled and quadrupled. The amount of $10,252,000,000 given for the total expenditures in 1924 compared with a corresponding amount of $2,919,000,000 for 1913, the year before the war. Total cost of government in the United States is more than the total cost of food; it now equals the national savings. It takes from the average family $380 a year, and takes it as a prior claim to the average family's creature comforts and living expenses.

Now, having in mind the economies promised from Washington in the Federal tax measure, do those economies offer a prospect of real tax relief? A saving of $350,000,000 in the Federal bill for this year will be very helpful to enterprise—helpful, that is, if it is certain to be realized. But there is little evidence in sight of any general economy in state and local expenditures, and it is not impossible that the experience of 1924 will be repeated. In that year there was a decrease of $385,000,000 in the expenditures of the Federal government and nation-wide joy was expressed thereat, yet state and local governments increased their outlays by $492,000,000 in that year, and total governmental expenditures were thereby elevated to their highest record of all time, outside of the war years.

A change in the tax trend is imperative, for the financial weight of government has now reached a point where a fifth of the people's total income is paid in tax levies of some sort. All the old forms of taxes have been augmented, while new ones have been devised; assessments have been raised; privilege taxes have multiplied; fresh burdens have been laid upon every form of business. Real tax reduction is, then, a subject of vital interest, nor will it do to replace taxes by borrowing on a large scale on the theory that borrowing will in some way or other relieve the taxpayer. Changes that are the product of real economy will have to come. In saying this we cannot expect, of course, that changes will come easily, nor need we expect that they will carry totals downward in any degree that approaches the rapidity with which they advanced. If it is not easy for economy's sake to convince the national Congress of its national obligation, then it is not easy to convince State legislatures or any groups of municipal governments or village trustees. There always are important reasons which local officials find for spending, and in fairness it is to be said that it is not always spendthrift politics which alone governs the attitude of officials toward the question of economy.

Why Taxes Cannot Be Speedily Reduced

ONE of the accompaniments of this country's advance of the past ten years has been the increase in the activities for public welfare. Governmental duties have multiplied many times, and through one means or another government has come to provide education and recreation, and care for the sick and unfortunate in ways that require the expenditure of hundreds of millions of dollars every year. Schools, parks, hospitals, public buildings, lighting systems and water supplies of other generations were insignificant in their public cost as compared with those of today. The same is true of other things. Roads are no longer built as they were a few years ago. It is the day of the automobile and gasoline truck. Traffic has multiplied and goes in heavier loads, so that streets, highways, bridges and tunnels are wider, straighter and of firmer foundation and more even grade. The estimate is made by the American Road Builders' Association that $1,250,000,000 will be spent this year on hard road construction alone.

So long as public demands go on increasing for what is paid for out of the public purse, just so long will public officials find reason for increasing the scale of public spending. The responsibility, then, to reduce government expenses is not alone that of the Congressman, legislator, alderman or village trustee. It is also that of the public, which foots the bill.

MAR 8 1926

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, March, 1926.

UNDER the terms of an agreement entered into by the Boards of Directors of this Bank and the Chase National Bank of this city, the businesses of both institutions are to be merged, effective on the approval of the stockholders of both institutions and the Comptroller of the Currency, probably soon after the first of April. The consolidated institution will have capital, surplus and undivided profits of not less than $79,000,000, and there will be associated with it, and owned by the same shareholders, a successful Securities Corporation with net assets of approximately $20,000,000. The present principal offices of both banks will be retained at No. 57 Broadway and No. 20 Nassau Street, and the branch bank service and facilities of both institutions will be continued.

This union has been prompted by the firm opinion on the part of the directors of both institutions that the consolidated bank, with so much greater capital than either of the separate institutions, as well as with the combined personnel, will be able to serve its customers in a much more efficient manner than heretofore. The consolidated bank will operate under the present charter and name of The Chase National Bank of the City of New York.

It will be of interest to our friends that the decision with respect to a short and euphonious name was reached after careful and mature deliberation. For sentimental reasons it would have been pleasant to perpetuate the name of this institution, which has meant so much in American banking for 116 years. From a practical point of view, however, it will be appreciated that joining the titles of the two institutions into a long name, hard to pronounce and difficult to remember, would have been without virtue. It might have served as a constant reminder of the associations and traditions of the past, but it would have defeated the very purpose of a name, which is to be a simple and distinctive designation.

In the formation of the greater institution, out of two banks which have long distinguished themselves in the service of the nation's industry and commerce, it goes without saying that the good examples of the past century will provide a guiding spirit for the future. The traditions of many decades of banking activity are cherished, and will continue to contribute their part in charting the course of the consolidated bank. The principles and high purpose of John Slidell, Jacob Lorillard, John Fleming, Shepherd Knapp, Benjamin B. Sherman and Horace E. Garth, together with those other able men who through the greater part of the nineteenth century guided the destinies of this bank, have made their impress upon this generation and will go on doing so.

Growing Demands on American Finance

PERHAPS it is not too much to look upon the formation of the greater bank as a mark of the evolution of American finance. New York, as a financial capital, has come to a position of such primary importance, and the demands upon its banking facilities so far surpass anything of the past, that by contrast with early years the epoch into which we have entered stands in a strong light.

In March, 1810, when the Mechanics' Bank was incorporated, banking, like manufacturing, farming and everything else, was conducted in small units. The United States was in its infancy, and there was none who then could foresee the transition of the American people from financial provincialism and dependency to their present strength and economic independence. In retrospect it is interesting to note the vision of those responsible for the origin of the Mechanics' Bank, for when seeking their charter they made the capital $1,500,000, increasing the amount in the following year to $2,000,000. No institution up to that time, or for the next quarter of a century, ventured to exceed the latter amount in its capitalization.

Since those early years the development of the resources of the United States and the energy and genius of the people have carried the nation in a material sense very far, and have made large demands for banking support. It is in the lifetime of this bank that New York has grown from a small community at the mouth of the Hudson River to a great metropolis. It is in this same time that, from a small, struggling nation, the United States has reached a position of wealth and prestige second to no other nation in the world.

What has been made of the American heritage, beyond the cultural and moral growth of the people, is demonstrated by a simple statement of fact, which is that this country has to date produced three times as much material wealth as the whole world produced up to the time of our Declaration of Independence. The gain has been particularly rapid in this generation; wealth has doubled in the past twenty years. Such advantage has been taken of the continent's territory and vast natural riches that there is now produced here most of the world's oil, copper, iron, steel, corn, cotton and lumber, and a large share of the world's coal and wheat. No other nation is stronger in machine and industrial power. None equals it in facilities of output and transportation.

Adjusting Ourselves to Future Opportunities

IT is difficult for all of us to adjust ourselves to the immense increase in the wealth of the country and to the scale of its business and financial operations. But that increase, in spite of our wonder at it, has occurred. Adjustment has from time to time been necessary on an important scale, as we added the requisite facilities and provided the machinery to handle the problems that arose and gain the business that was obtainable or presented.

Further adjustment must be necessary if we build on what we have. To give full opportunity for the energies of the American people and to expand old enterprises and inaugurate new ones, it is plain that there must go on a steady evolution as time advances. This evolution will be more than ever to machine production, mass output, wide distribution and lower costs. The scientific advance that is going on throughout the world is something unmatched in any previous age; the ever increasing momentum, and the needs of a growing population, call insistently for more equipment and quicker methods. In turn, also, they call insistently for capital and credit sufficient to finance those methods.

In the natural order, all of this will speed the trend toward organization. We must think now in terms of large undertakings, for the work of the village artisan and independent workman is being supplemented by large enterprise. Local service is being immeasurably widened. We no longer work or trade as we did even a few years ago; the day is one of big units. Old forms of equipment have been replaced. Human needs have multiplied, and everything contributing to those needs has had to keep pace. It requires huge enterprise to secure the best advantage of all the propelling power that comes daily from science, from the inventor's mind, from the ingenuity of management and from the combined energy of the American people.

Hence we see efficiently conducted and economically operated corporations emerging to supplement or improve upon the old system of a multitude of small industries. Hence also we see financial institutions built up to meet the demands of the times.

Having played its full part in the development of the nation, banking is keeping full pace with progress and is contributing to bring that progress about. Antiquated methods have not been permitted up to now to stand in the way of the general advance, and just as industry to date has been made possible by, and supported by, the adequate investment of capital and the proper loaning of credit, so it is necessary that in the future the American people's savings, and the strength and usefulness of their banking and credit machinery, be adequate for the test.

Banking occupies so distinctly a place in the present scheme of things, and bank organization has developed along such broad lines, particularly since the World War, that the directions of service are practically unlimited. The wide extension of industrial and commercial relations compels the use of credit on a scale never before imagined, and on the threshold of a new era in world development, banks are called upon to lend their assistance in a manner to bring about a realization in full of the advantage of the new opportunities that are before us.

Opportunities have opened themselves in business and finance that were undreamed of until they thrust themselves upon the vision of the people; in the light of history, all that has occurred is amazing to those who recognize how short a period of time has really elapsed to bring all this about. We have built a nation and a new civilization as well, all of which makes it very interesting to contemplate the outlook of the epoch into which we have entered, for it would seem that the day of discovery, upbuilding and development in a large sense has only begun. New forces of industry; expanding and changing types of old industry; commercial development; the exploitation of fields unknown before; all of these promise to engage enterprise and employ labor, savings and credit in larger volume as time advances. They promise, moreover, to bring about conditions in the premier money market of the country that will emphasize the need for banks of abundant resources and extensive connections.

Widening the Field of Our Activities

OF course, it is not alone in a strictly national sense that future opportunities are to be viewed. American enterprise has come to play its part in world development. Though the economic growth of this country has been in every sense amazing, and has employed most of our funds, foreign opportunities have engaged attention. Indeed, they have done that to such a degree that American investment abroad has within a comparatively few years made us a challenger of Great Britain's position as the world's chief international investor and creditor. New York now shares with London the place of financial leadership.

During the war our position in world finance, as every one knows, changed greatly. We began then to extend funds abroad on a large scale, and once begun, the outward stream of capital and credit grew and swelled in such a way that today our total foreign investments, adding private and banking loans to the war-time loans extended by our government, run beyond twenty billion dollars. There are invested privately more than four billion dollars in Latin America. Canada owes our investors more than two and one-half billion dollars. Loans in Asia run to a large sum. European borrowers, other than governments, are obligated to the extent of more than three billion dollars.

The sums grow steadily as American investment, led by American enterprise, increases its interest abroad. Up to now it has gone into nearly every section of the earth. It has financed development and progress in every continent and nearly every country. It has played a decisive part in helping the process of reconstruction in Europe.

Development of Home and World Markets

NOW, the growth of American strength and influence has been in every sense eminently gratifying, and for the future gives much promise. Apart from domestic fields, the American people are establishing a new direction for their investment and credit currents. They have become international-minded; their funds seek enlarged opportunity, and seek them in a wide market. To just what lengths our investors and lenders will go in the direction of establishing themselves as a dominant force in the financial channels of the outside world is of course impossible to say. They sense the opportunities for safe and profitable business; at the same time they know that we as a people are selling to other nations more goods than we buy, thus constantly increasing the obligations here of other people. Our continuing excess of merchandise exports over imports, our continuing purchase of foreign securities, our possession of much of the world's gold and our position as one of the greatest of all creditor nations are problems that claim consideration.

Still, in face of those and other problems which are unsolved to date, the question often occurs as to how and where this country can employ all the new wealth that is represented by its savings, and all the credit that is represented by its banking resources, unless it employs a considerable part abroad. As matters stand, there really is no world surplus of capital or credit today. In large supply in the United States, funds are in short supply in other countries. That disparity emphasizes the relatively fortunate position of the United States. At the same time it makes the relative opportunity for profit in other countries appear to be so much greater than here, and the larger investment returns abroad steadily invite a flow of American funds.

Our capital and credit, advanced to necessitous borrowers, have given us a notable economic advantage in world affairs. There is a view held by not a few people, however, that foreign investment of our funds is now not only gratifying but necessary, and in spite of the unsolved problems mentioned above, these people believe that foreign investments will be continuingly necessary to employ all the wealth that is represented here. According to their view we have advanced billions of dollars abroad in a comparatively short time and still have an abundance of funds, which suggests that we are surfeited to such an extent that new savings and available credit must exceed the opportunities for their favorable domestic employment. Certain British financiers have laid stress on the records which show that American credit expansion in 1925 was in only a small particular attributable to the increase in commercial loans, and the conclusions they reached were that: (a) The American manufacturing plant is already over-expanded, on which account new funds will have to find employment in such things as road-building, development of water powers, etc. (b) An increasing amount of American funds will have to find employment abroad.

Where Capital and Credit Will be Employed

THESE matters will be recognized as vital to the country's welfare. At the same time, as a permanent thing no forward-looking man will subscribe to a view that the future is to deny the profitable employment of our capital and the lending of our credit at home. It is true that certain American industries are built up so far that when deprived of peak demand a considerable number of their plants are forced into idleness. Special attention has been directed on a number of occasions to the existing extraordinary capacity for production of cotton and woolen textiles, of steel, copper, leather, paper, plate glass, farm implements, automobiles and other finished products.

Over-capacity of any particular manufacturing trade, however, can refer to no permanent condition. The country is growing steadily. There is an enormous productive capacity; at the same time the problem is one less of overproduction than occasional unbalanced production. In any growing country it can never be said that as a general thing it is producing too much of what contributes to life and happiness. So long as the power to buy things increases, it may be accepted that the use of goods in the United States, and the capacity for their output, will increase.

So, then, what is going on must be viewed in the light of the spirit of aggressive expansion throughout the nation, and in the light of the enormous advantages and opportunities of the American people. In that light the opinion which indicates the necessity of a continuing and unending flow of American goods and credit to other shores, in order that we may not be strangled by our own prosperity, takes a lot for granted. Foreign business, after all, can only supplement domestic business. North America is a continent of vast resources and great opportunities. South America and Asia are slower in development and Europe constitutes an old and to a considerable extent a built-up world.

There is vast advantage here in the fertility and rich endowment of the continent, and added to that is the make-up and the living-standard of the country's population. Generation after generation of the bloom of other people, their most active elements, have come here in the past and added themselves to the population, and now, as a national group, the masses of the American people lead others in energy, industrial genius, mechanical art and technical skill. They lead in the facility for developing existing markets and cultivating new ones. They lead in economic self-sufficiency. The nation's strength may be burdened by many laws and restrictions, but the intelligence and skill of its people surpass all others, and it is to be kept in mind that obstacles like those of overpopulation, individual restraints, political animosities, social malice, linguistic difficulties, customs barriers, and standing armies, so familiar abroad, are unknown here.

In every direction the United States possesses opportunity as never before, and both the local and wider field require the aid of capital and credit advances. The nation's economic structure is greater than any other, and still is not built large enough. Nothing here is finished. Much of our soil is scarcely scratched. Lands are still to be drained and watered. Rivers, forests, mines and wells await development. Lakes are to be raised, mountains lowered and deserts irrigated. There are factories, mills and roads waiting to be built, enlarged or extended. The profitable uses for capital are unmatched in their prospect, and all in all, with respect to industry, agriculture, commerce, the railroads, public utilities and electrical development, the field for credit in the United States is unlimited in its promise.

The Scope of Future Opportunities

THIS is why it is unthinkable that on any large or permanent scale the opportunities elsewhere should be so much greater as to go on bidding our funds away. As a matter of fact, simply to protect our strength and gain the best advantage of what this nation already has will require the steady employment of a considerable part of our new wealth and our credit facilities. The thought is important that so far as productive capacity is concerned, the total capital of the nation's business has to be renewed every twelve or fifteen years. Everything in use wears out in time or is scrapped. New savings must replace what is thus lost. Without the domestic investment of new savings, and without adequate credit equipment, the acquiring of things which contribute to human comfort would become steadily less. As the demands increase with the population's yearly growth of 1,500,000, financial support must increase simply to maintain our productive ability and keep it abreast of the times. It must increase further if the growing population is to build on what it already has.

Naturally, as a business people we shall not leave foreign markets out of the consideration of future plans. While contemplating the magnitude of what is strictly American business, we pride ourselves on having achieved a place on the world's financial throne. The outside world goes on seeking our goods and seeking of us as well the means wherewith to purchase the goods we have to sell. We in turn seek employment for our capital and banking credit in those fields where they can, with safety, find the best profit and promote the best commercial advantage. So long as investment and commercial opportunities in Latin America, Asia, Europe or elsewhere offer satisfactory yields with safety, a certain part of our funds are bound to seek the advantage thus offered. Investment will be attracted to places where there is economic health.

Our foreign business will grow as a necessary adjunct to our domestic business, and as the two together expand, the leadership in that expansion will be sought of those who, by organization and equipment, have qualified themselves for the responsibility. The United States has now a position of primary importance, and can profit from that position and gain a very substantial share of the world's trade as it is provided with the requisite facilities. The organization of our money market, and its flexibility and steadiness, will contribute much toward the support of every proper undertaking. More than that, if intelligently conducted from an international point of view, it will make secure the nation's present supremacy and will contribute to fulfill the ambition to make of New York the financial and commercial center of the world.

MAY 10 1926

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

New York, April, 1926.

PLANS have been completed for the consolidation of the business of this bank with that of The Chase National Bank. Stockholders of both institutions have ratified the merger agreement entered into by their respective Boards of Directors, and the physical consolidation will take effect as of the opening of business April 12th.

From that date, under the name of The Chase National Bank of the City of New York, the combined institution will offer to industry and commerce a banking service that will be in larger measure and of wider scope than was possible on the part of the separate institutions. The bank will have a capital of $40,000,000, which with the $10,000,000 capital of the Chase Securities Corporation and the combined surplus and profit accounts, will give the consolidated institution a capital structure of more than $90,000,000.

As already announced, the union of this bank with The Chase National Bank has been prompted by the firm belief that the consolidated bank, with so much greater capital than either of the separate institutions, with increased equipment and enlarged personnel, and with a combined fund of experience on which to draw, will be capable of serving the public in a more efficient and adequate manner than was possible at any time in the past. Each of the banks entering the merger brings to the combined institution many contributions of definite value to customers. Each has served different groups of industries as well as the general public, so that the combination will provide a varied experience in the wider field to the advantage of all whom it serves.

In the creation of this enlarged banking unit there evolves logically a completely rounded out and equipped institution, accommodated to the broad needs of trade and finance, and offering facilities fully adequate for handling the varied requirements that have come to be made by domestic and international business. As for the background of the merger itself, perhaps that has been best described by the New York *Herald-Tribune* in an editorial which appeared on February 13th:

> "There is something in the union of the two institutions that carries a broader appeal than the mere size of the combination. Perhaps the word 'institution' itself is the thing which distinguishes it from the ordinary corporate consolidation. For that is what each of these banks is, an institution, with the full endowment of tradition that that word implies.
>
> "Each has brought something to this union beyond financial resources. Each has come with a splendid record of achievement and with an individuality in which have been blended the personalities of those who have fashioned our banking and financial history during a century of notable development. * * * Such is the background of the latest of our great consolidations. It is one that for solidity, character and promise has had, and will have, few equals."

Banking and Business Progress

THERE are many reasons for looking upon the formation of the greater bank as a mile-post in the evolution of American finance. Business progress of recent years has been on such a scale and has brought about so complete a change from the old systems of individual operation, that bank organization, simply to keep abreast of progress, has found it necessary to develop along broad lines and follow new directions of service. The wide extension of industrial and commercial relations has compelled the use of credit on a constantly enlarging scale, and in many ways banks have been called upon to serve business so that there might come about a full realization of the advantages in sight. It is because of the opportunities which have developed in business and finance that large banking units, which can operate on a broad scale and at the same time offer the advantages of sound direction and capable economy, are now a necessity. There is still need for the neighborhood and community bank, and in the United States there will always be that need. But the functions and productive endeavors of large financial institutions, their capacity to undertake loans and credits which run to big figures, their work in the trust and foreign fields, and their capacity to develop advantages of economy and efficiency in operation, all now combine to constitute a most important constructive factor in the financial affairs of corporations, firms, business partnerships and individuals as well.

The basis of American business success has been and will continue to be found in the soundness and the capacity for development of its credit structure, and increasingly important accomplishments may be expected as time goes on to support and promote the development of what the business of the country now possesses. Having played its part in progress thus far, banking will continue to keep pace with progress and contribute to bring that progress about.

Growth of Chase National Bank

IN contributing its part to the requirements of the future, the institution that is formed by the union of these two banks is pledged to continue the traditions of conservative banking and expanding service which heretofore have so materially contributed to the growth of the separate institutions. To the customers and friends of The Mechanics & Metals National Bank it is unnecessary to recall the principles which have governed the conduct of its business and which have distinguished its operations over a period of 116 years. The story is familiar to all of them. It will be of interest, however, to give briefly a record of The Chase National Bank, which though not of great age, has enjoyed a growth that has been an outstanding feature in American finance.

With the history of The Chase National Bank are identified numerous illustrious names, including those of John Thompson, George F. Baker, James J. Hill, Henry White Cannon, A. Barton Hepburn and Albert H. Wiggin. The bank's policy from the beginning has been one of unremitting enterprise and usefulness, and its growth indicates to what degree the institution has developed with its opportunities. Named after Lincoln's Secretary of the Treasury, Salmon P. Chase, the bank was established on September 12th, 1877, when a group of five men met at No. 117 Broadway, and as the sole original stockholders and the first Board of Directors organized the institution, with a capital of $300,000. These men were Samuel C. Thompson, John Thompson, Isaac W. White, Francis G. Adams and Lewis E. Ransom.

Doors were opened for business on September 20th, 1877. The first published report, as of December 27th following, showed total resources of the bank to have crossed above a million dollars.

During the first nine years of its existence The Chase National Bank operated under the guidance of Samuel C. Thompson and his father, John Thompson, men whose names stood for much in the banking life of New York City in their generation. In 1886 Henry White Cannon, who today continues as senior director of the bank, was elected President. His energetic guidance marked a notable period in the growth of the bank. The regime of the Thompsons had been the formative period of the bank's history, in which the business transacted was largely local. Mr. Cannon's administration was distinctly a period of expansion. In 1887 the bank increased its capital to $500,000 and moved into quarters at No. 15 Nassau Street, where, according to statements made at the time, there seemed so much space that the eighteen clerks "had to look around to find one another." Within eight years, however, the bank's activities had grown so far that new quarters had to be sought, and the bank moved into the Clearing House Building on Cedar Street. In 1897 the capital was increased to $1,000,000.

Progress Made in a Quarter-Century

TWO years later, in 1899, when deposits had risen to $43,000,000, A. Barton Hepburn, who was destined to become the third president, joined the institution. Mr. Hepburn's name has become a tradition in Wall Street; his sound knowledge of banking, his keen judgment and fearless leadership brought notable accomplishments which marked his career as an exceptional one and made him a leading figure in finance throughout the course of his life. He succeeded to the presidency of the bank in February, 1904, Mr. Cannon at that time becoming Chairman of the Board. Deposits of the bank were $53,000,000 at the beginning of Mr. Hepburn's presidency; in less than three years they were increased by $17,000,000. This made it apparent that the capitalization should be enlarged, and on December 12, 1906, the capital was increased from $1,000,000 to $5,000,000, a 400 per cent. dividend being declared for the purpose.

Administration of Albert H. Wiggin

IT was in 1904 that Albert H. Wiggin, now executive head of The Chase National Bank, joined the institution as a director and vice-president. With the advent of Mr. Wiggin a period of growth occurred which quickly placed the bank in the front rank of American financial institutions. Facilities were extended to a constantly enlarging number of customers, and the bank's activities came to play an increasingly important part in the support of business. The combined talents of Mr. Hepburn and Mr. Wiggin gave a unique element of strength and conservatism to the progress of the bank. It was during this period of enlarging demands upon the facilities of the bank that there came experience, a widening outlook and an increasing measure of service. Above all, there came a high tradition with which to meet and build for the future.

Mr. Wiggin, whose unusual capacity for work and far-sighted good judgment have justified the reputation that has come to him of being a great financial leader, and whose personality is such that he is often referred to as "a man of a million friends," succeeded to the presidency of the bank in January, 1911. At that time deposits were $92,382,000. At the opening of 1915 deposits were $135,000,000, and the quarters in the Clearing House Building being found to be far from adequate, the present home at 57 Broadway was selected. By October, 1916, deposits had risen to $272,000,000, and nine years having passed since the increase in the bank's capitalization, the enlargement of the power of the institution was again recognized by doubling the capital with an addition of $5,000,000. That was a little more than nine years ago; on December 31st, 1925, deposits stood at $564,000,000, with capital at $20,000,000 and Mr. Wiggin still at the head.

It was found, some time ago, that attractive business opportunities frequently presented themselves, of which, because of the limits defining the powers of banking institutions, advantage could not be taken by banks themselves. In order that Chase Bank shareholders might be in a position to embrace such opportunities, the Chase Securities Corporation was formed in June, 1917, with a capital of $2,500,000. Shareholders of the bank were given the privilege to subscribe for stock of the new corporation, and funds sufficient to cover such subscriptions were furnished by means of a special dividend of 25 per cent. on the then outstanding $10,000,000 capital stock of the bank. The business of the new corporation grew steadily from the start and has made an important contribution to the efficiency of the bank's service. Total resources of the Chase Securities Company had grown to $25,500,000 by December 31, 1925.

Recent Growth of Bank's Usefulness

THE fifth increase in capitalization of the bank was made in January, 1920, when the capital became $15,000,000. At that time the deposits were $387,000,000. Four months later the surplus was increased to $15,000,000 from undivided profits. In 1921, upon the merger with the Metropolitan Bank, there occurred an increase in capitalization to $20,000,000. That merger enlarged the local scope of the organization through seven advantageously located branches in Manhattan and Brooklyn, and increased its power by an advance in the deposits of $56,000,000. Early in 1925 the bank extended its service further and supplemented its world-wide contacts through correspondent banks by acquiring three foreign branches—one in Havana, Cuba, and one each in Panama City, Republic of Panama, and Cristobal, Canal Zone.

The union with The Mechanics & Metals National Bank marks the latest event in the story of the growth of The Chase National Bank. As a result of this union, there will now be twenty offices in Manhattan, one in Brooklyn, and three outside of the United States, where the service of The Chase National Bank will be offered for the advantage and the needs of customers.

Albert H. Wiggin will be chairman of the Board of Directors of the consolidated bank; Gates W. McGarrah will be chairman of the Executive Committee; John McHugh will be president. The new and enlarged Board of Directors will include banking, manufacturing, commercial, transportation and mercantile executives representing a wide range of business interests and experience.

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

with which, effective April 12, 1926, is merged

THE MECHANICS & METALS NATIONAL BANK

OF THE CITY OF NEW YORK

HEAD OFFICE: 57 BROADWAY

Mechanics & Metals Branch.....20 Nassau Street
Metropolitan Branch..Fourth Avenue at 23d Street
Shoe & Leather Branch............320 Broadway
Maiden Lane Branch............75 Maiden Lane
Prince Street Branch..............565 Broadway
Seventh Avenue Branch..Seventh Ave. at 36th St.
Forty-first Street Branch..Madison Ave. at 41st St.
Hamilton Trust Branch..191 Montague St., Brklyn.
Park Avenue Branch..Park Avenue at 60th Street
Produce Exchange Branch..........25 Broadway
Worth Street Branch..Broadway at Worth Street
Stuyvesant Square Branch..Second Ave. at 14th St.
Fifth Avenue Branch...........204 Fifth Avenue
Fifth-seventh Street Branch..143 West 57th Street
Seventy-second Street Branch..B'way at 72d Street
Eighty-sixth Street Branch..Broadway at 86th St.
Columbus Ave. Branch...Columbus Ave. at 93d St.
Harlem Market Branch........2011 First Avenue
Harlem Branch......Third Avenue at 116th Street
Manhattanville Office.......422 West 125th Street

Havana Branch...................Havana, Cuba
Cristobal Branch.....................Canal Zone
Panama City Branch.........Republic of Panama

Directors

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ALBERT H. WIGGIN
Chairman of the Board

JOHN J. MITCHELL
President, Illinois Merchants Trust Company, Chicago, Ill.

GUY E. TRIPP
Chairman, Board of Directors, Westinghouse Electric & Mfg. Co.

JAMES N. HILL

DANIEL C. JACKLING
President, Utah Copper Company

CHARLES M. SCHWAB
Chairman, Board of Directors, Bethlehem Steel Corporation

SAMUEL H. MILLER
Vice-President

EDWARD R. TINKER
Chairman of the Executive Committee, Chase Securities Corporation

EDWARD T. NICHOLS
Vice-President, Great Northern Railway Company

NEWCOMB CARLTON
President, Western Union Telegraph Company

FREDERICK H. ECKER
Vice-President, Metropolitan Life Insurance Company

EUGENE V. R. THAYER
Vice-President, E. Atkins & Company, Inc.

CARL J. SCHMIDLAPP
Vice-President

GERHARD M. DAHL
Chairman, Board of Directors, Brooklyn-Manhattan Transit Corporation

REEVE SCHLEY
Vice-President

H. WENDELL ENDICOTT

JEREMIAH MILBANK

HENRY OLLESHEIMER
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ARTHUR G. HOFFMAN
Vice-President, The Great Atlantic & Pacific Tea Company, Inc.

F. EDSON WHITE
President, Armour & Company

ALFRED P. SLOAN, JR.
President, General Motors Corporation

ELISHA WALKER
President, Blair & Company, Inc.

MALCOLM G. CHACE

THOMAS N. MCCARTER
President, Public Service Corporation of N. J.

ROBERT L. CLARKSON
Vice-Chairman of the Board

AMOS L. BEATY
Chairman, Board of Directors, The Texas Company

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President

WILLIAM E. S. GRISWOLD
W. & J .Sloane

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WILLIAM A. JAMISON
Arbuckle Bros.

L. F. LOREE
President, The Delaware & Hudson Company

THEODORE PRATT

ROBERT C. PRUYN
President, National Commercial Bank & Trust Company, Albany, N. Y.

SAMUEL F. PRYOR
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